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KPMG

Insurance
IFRS Newsletter

"The IASB has completed its planned technical redeliberations and we expect the release of the final insurance contracts standard around the end of this year."

– Joachim Kölschbach, KPMG's global IFRS insurance leader

What happened in January 2016?

At its January meetings, the IASB considered the level of aggregation for onerous contracts and allocation of CSM and continued its discussion regarding discretionary cash flows.

Level of aggregation

The Board agreed to provide additional guidance to enable entities to better assess the levels at which they can group insurance contracts for the purposes of the recognition of losses on onerous contracts and the allocation of the contractual service margin (CSM). It also agreed that no exception should be made to the proposals when regulation affects the pricing of contracts.

Discretionary cash flows

For participating contracts under the general measurement model that include discretionary cash flows to policyholders, the IASB agreed that an entity should specify the effect of discretion.

Status of the project

The IASB has now completed its planned technical redeliberations.

In February 2016, the Board intends to discuss whether it has complied with all of the required due process steps and whether the staff can begin the balloting process for the forthcoming insurance contracts standard.

Assuming that the final insurance contracts standard is completed around the end of 2016, the expected effective date of the final insurance contracts standard remains 1 January 2020 or 2021.

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Level of aggregation

The IASB agreed to provide additional clarification of the criteria for grouping insurance contracts.

Level of aggregation for onerous contracts

What's the issue?

At several of its meetings, the Board has discussed the level of aggregation to use when accounting for insurance contracts. In June 2014, the Board clarified the proposal in exposure draft ED/2013/7 *Insurance Contracts* (the ED) by adding guidance that the objective is to provide principles for the measurement of an individual insurance contract, but that in applying this proposed objective an entity could aggregate insurance contracts provided that it met the objective. The purpose of the objective was to assist preparers in determining the CSM on initial recognition and the subsequent adjustment and allocation of the CSM.[1]

In February 2015, the Board held an education session in which it discussed how this objective should be applied in the subsequent unlocking of the CSM[2]. Since its February 2015 meeting, the Board has received feedback from constituents that there is still significant uncertainty over how its decisions should be interpreted and that these decisions may not be appropriate to reflect how insurers manage their business.

The staff noted that they did not intend for the June 2014 decision to set an objective that when the CSM of an individual contract becomes negative, the loss should be recognised in all cases. They noted two factors that should influence these decisions:

- often there will be groups of contracts for which the entity expects at inception that there is a similar likelihood of the insured event occurring; and
- entities would need to use only reasonable and supportable information that is available at inception without undue cost or effort to satisfy the objective.

The staff no longer believe these factors are sufficient to avoid inappropriate recognition of losses that arise on individual contracts just because expected events across a group affect individual contracts differently. This month, the staff considered whether the Board should specify a level of aggregation to be used in determining whether a group of contracts is onerous.

The staff noted that the discussion in IFRS 15 *Revenue from Contracts with Customers* about the disclosure of revenue could be used to develop guidance on the level of aggregation for determining onerous contracts subsequent to initial recognition. Based on this guidance, the staff developed an objective to group contracts for which the amount and timing of cash flows are expected to respond in similar ways to key drivers of risk.

The staff believe it is necessary to retain the notion from the ED that a group of contracts should comprise contracts that had similar expected profitability at inception in order to avoid undue loss of information about individual contracts.

What did the staff recommend?

The staff recommended that a loss for onerous contracts should be recognised only when the CSM is negative for a group of contracts, and that the group should comprise contracts that at inception:

- had cash flows that the entity expects will respond in similar ways to key drivers of risk in terms of amount and timing; and
- had similar expected profitability – i.e. similar ratio of CSM to premiums.

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1. For more information, see Issue 41 of our *IFRS Newsletter: Insurance*.
2. See the IASB's Agenda Paper 2A from February 2015.

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What did the IASB discuss?

Several Board members suggested that additional clarification should be added during the drafting process to assist entities in understanding what would be considered 'similar contracts' in the context of the staff's recommendation to achieve a faithful representation of the effect of having groups of contracts.

What did the IASB decide?

The IASB agreed with the staff's recommendation.

The IASB agreed on the objective for aggregating insurance contracts for the allocation of the CSM.

Level of aggregation for the allocation of the CSM

What's the issue?

When insurance contracts in a group have different expected durations, it is expected that the coverage period of some contracts will end earlier and others will end later than the average coverage period for the group.

For those contracts for which the coverage period ends earlier than the average coverage period for the group:

- measuring the contracts on an *individual* basis would mean that the CSM associated with those contracts would be fully recognised in profit or loss over the shorter period up to the point when the coverage period ends; and
- measuring the contracts on a *group* basis would not necessarily mean that the CSM associated with those contracts would be recognised in profit or loss when the coverage period ends.

During May 2014, the Board decided that an entity should recognise the remaining CSM over the remaining coverage period in a systematic way that best reflects the transfer of the services to be provided by insurance contracts.[3] This month, the staff considered guidance on how to apply this principle when an entity groups contracts for allocation of the CSM.

The staff suggested that an entity would have to group contracts by the following factors.

Grouping	Rationale
Amount and timing of cash flows expected to respond in similar ways to key drivers of risk	These groupings are necessary to ensure the CSM of a particularly profitable contract is not carried forward after the individual contract has expired.
Similar expected profitability – i.e. similar ratio of CSM to premiums – on inception	
Coverage periods that are expected to end at a similar time	This grouping is necessary to ensure the CSM is not carried forward long after the contract has expired or lapsed.

3. For more information, see Issue 40 of our *IFRS Newsletter: Insurance.*

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What did the staff recommend?

The staff recommended that an entity could meet the objective of recognising the remaining CSM in profit or loss over the remaining coverage period in the systematic way that best reflects the remaining transfer of services to be provided by insurance contracts, by grouping contracts based on the factors described above.

What did the IASB discuss?

The Board discussed this matter twice.

At the first discussion, several Board members took the view that the last condition – i.e. coverage periods that are expected to end at a similar time – was not necessary. The Board had a detailed conversation about what the objective of any level of aggregation for the allocation of CSM should be. One Board member suggested that they agree on a principles-based approach and leave it to preparers to determine how to achieve the measurement objective because there could be different ways to achieve that objective. Some board members said that factors such as duration and lapses should be considered in the level of aggregation. However, there were different views among Board members about whether the consideration of such factors should be specified as part of the objective.

Revised staff recommendation

Following this initial discussion, the staff revised their recommendation as follows:

Objective for allocating CSM: To recognise the CSM on an individual contract basis over the coverage period in a way that best represents the services provided. If there is no more service to be provided by the contract after the end of the reporting period (e.g. the contract lapses or expires), then the CSM should be fully recognised (i.e. no CSM remains).

An entity may group homogenous contracts for allocating the CSM if the objective above is met. It is deemed to meet the objective if:

- the contracts in the group have cash flows that the entity expects will respond in similar ways to key drivers of risk in terms of amount and timing and on inception have similar expected profitability; and
- the entity adjusts the allocation of the CSM in the period to reflect the expected duration and size of the contracts remaining after the end of the period.

What else did the Board discuss?

Two members of the Board observed that the issue is that the Board's notion of 'individual contract level' is different from the constituents' notion of the term. One Board member noted that the IASB's perception is that the measurement and allocation of the portfolio has to reflect all of the characteristics that drive the valuation of a portfolio of contracts as a whole. In contrast to this perception, constituents perceive an 'individual contract level' as requiring the measurement and allocation of a hypothetical valuation at an individual contract level. Board members considered that the wording of any objective as recommended by the staff should take this into account and can be finalised during the drafting process.

Accordingly, Board members suggested that the staff provide clarity during the drafting of the final insurance contracts standard that the objective (similar to that above) for allocating CSM could be achieved at an individual contract level or with a group of homogenous contracts. Furthermore, entities would be permitted to determine how to achieve this objective. However, the Board would provide criteria

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that it believes would allow a group of contracts to meet that objective with the understanding that there are other ways to meet the objective.

A Board member also suggested that they should be clear within the drafting of the forthcoming insurance contracts standard that there are different levels of aggregation for different purposes within the standard. Another member agreed and suggested that the Board's rationale for each of the different levels of aggregation should be included within the final standard.

What did the IASB decide?

The Board agreed with the staff's revised recommendation and instructed the staff to improve the clarity of the proposed recommendation based on their discussion.

The IASB agreed there should be no exception to the level of aggregation based on regulation.

Effect of regulation

What's the issue?

The level of aggregation for determining onerous contracts and allocating the CSM to profit or loss both support the notion that a group should comprise contracts with similar expected profitability at inception.

In some jurisdictions, regulation may affect the pricing of insurance contracts – e.g. the requirement for gender-neutral pricing in some jurisdictions. For that reason, some constituents suggest that the Board should provide an exception in determining the level of aggregation for contracts for which an entity does not have the right or practical ability to set a price that fully reflects the risk of a particular policyholder.

The staff believed that differences in profitability are real economic differences between contracts which provide information to users that should not be lost, even if it is caused by regulation. Further, the staff believed an exception would increase the complexity of the forthcoming insurance contracts standard and potentially set an undesirable precedent.

What did the staff recommend?

The staff recommended that there should be no exception to the level of aggregation for determining onerous contracts or the allocation of the CSM when regulation affects the pricing of contracts.

What did the IASB discuss?

Various Board members expressed concern that if they were to allow an exception to the level of aggregation for determining onerous contracts or the allocation of the CSM when regulation affects the pricing of contracts, then they would be setting a precedent of being permissive for regulated businesses and/or products, which could result in other industries asking for similar exceptions.

What did the IASB decide?

The IASB agreed with the staff's recommendation.

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KPMG insight

The Board responded to the concerns of constituents by providing additional clarification on aggregating insurance contracts. Due to the diverse and complex products within the industry and the principles-based approach that the Board has taken in previous meetings, judgement will be required to assess the level of aggregation. The clarifications provided this month will assist management in those assessments. However, management will still need to apply judgement to ensure that they provide a faithful representation of the effect of grouping contracts.

The Board's decision may result in showing losses under contracts that are priced at a higher level than a group as defined for accounting purposes.

For example, an entity may manage a unisex annuity portfolio at the product level (male and female contracts managed together) due to regulatory constraints. However, due to the different longevity of men and women, an entity may have to group these separately for accounting purposes which could result in a higher likelihood of onerous contracts for one set of the contracts. Consequently, an entity may have to recognise losses for accounting purposes although these may not be considered losses by management.

Entities may find it challenging to explain losses on an accounting basis that are offset economically by expected profits on other contracts at a higher product level.

Entities will also have to document their accounting policies and judgements for aggregating insurance contracts for different purposes – e.g. assessing onerous contracts, allocating the CSM, calculating the risk adjustment etc. – and apply those policies consistently. With aggregation decisions needing to be made at inception, entities will need to prepare in advance.

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Discretionary cash flows

The IASB decided to require an entity to specify the effect of discretion under the general model.

What's the issue?

Under the proposals, an entity would be required to specify how it views its discretion under the contract, and to use that specification to distinguish between the effect of changes in market variables and changes in discretion. Such a determination would need to be consistent with assumptions that the entity used in estimating the fulfilment cash flows.

At its November 2015 meeting, the IASB discussed how to identify changes in discretionary cash flows to be recognised as adjustments to the CSM when participating contracts are accounted for under the general measurement model. At that time, 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. The IASB agreed that, in principle, the treatment of discretionary cash flows should be split from the treatment of other cash flows. They did not, however, support the staff's recommendation and they directed the staff to conduct additional research on possible approaches to treating discretionary cash flows in an insurance contract, and whether a decision is even necessary.[4]

This month, the staff looked at whether an approach for distinguishing between the effect of changes in market variables and changes in discretion could be based on combining two of the views previously discussed in November. They considered whether to require an entity to specify at the inception of the contract how it viewed its discretion under the contract, and to use that specification to distinguish between the effect of changes in market variables and changes in discretion. That specification need not be limited to current market returns or interest income on assets held, but could include whatever factors the entity uses to determine the amounts due to policyholders, such as reference assets not held by the entity or indices. If the entity is unable to specify in advance how it will determine the amounts due to policyholders, then the default benchmark would be a current market return.

The staff expressed the view that this approach would not be significantly different from simply stating the principle in the ED – i.e. to allow the entity to specify how it determines the effect of discretion.

What did the staff recommend?

The staff did not make any recommendations to the IASB, noting that prescribing the treatment of discretionary cash flows in an insurance contract as supported by some IASB members might have a similar effect as leaving it to an entity to specify. However, they did ask the Board whether it wished to proceed by requiring an entity to:

- specify the effect of discretion; or
- determine the effect of discretion by reference to the market.

4. For more information, see Issue 50 of our *IFRS Newsletter: Insurance*.

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What did the IASB discuss?

The Board was supportive of leaving it up to each entity to specify how it identifies changes in discretionary cash flows. Some members suggested that the staff add examples to better illustrate the objective and ensure consistency. The staff clarified that the difference between the proposed requirement in the ED and what they have recommended this month is that if an entity is unable to specify in advance how it will determine the amounts due to policyholders, an entity should measure the effect of discretion using a current market return.

What did the IASB decide?

The IASB agreed that an entity should specify at the inception of the contract how it views its discretion under the contract and to use that specification to measure the effect of changes in estimates of discretionary cash flows to be recognised in the CSM because such estimates are regarded as relating to future service under the general measurement model.

KPMG insight

Allowing each entity to specify how it determines the effect of discretion may result in:

- possible confusion over how discretionary cash flows should be determined in the general measurement model;
- lack of comparability for similar contracts across entities caused by different views by entities about their discretion; and
- the potential for entities to manage the process to achieve particular results.

However, the differences in reporting could provide useful information to users of financial statements because such information reflects management's perspective about its discretion.

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Appendix: Summary of IASB's redeliberations

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Targeted issues		
Unlocking the CSM	– 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
	– An entity should specify at the inception of the contract how it views its discretion under the contract and to use that specification to measure the effect of changes in estimates of discretionary cash flows to be recognised in the CSM because such estimates are regarded as relating to future service under the general measurement model.	Yes
	– For non-participating contracts, the locked-in rate at inception of the contract would be used for: - accreting interest on the CSM; and - calculating the change in the present value of expected cash flows that adjust the CSM.	No
	– An entity would disclose: - the changes in fulfilment cash flows that are accounted for as a change in the CSM (except when the variable fee approach applies); and - an explanation of when the entity expects to recognise the remaining CSM in profit or loss either: – on a quantitative basis using the appropriate time bands; or – by using qualitative information.	Yes
Presenting the effects of changes in the discount rate and other market variables in OCI	– An entity could choose as its accounting policy either: - to disaggregate changes in the discount rate and other market variables between profit or loss and OCI; or - to present insurance investment expense in profit or loss using a current measurement basis.	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

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What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Presenting the effects of changes in the discount rate and other market variables in OCI (continued)	– 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
	– 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.	Yes
	– If an entity chooses to present the effects of changes in discount rates and other market variables in OCI, then it would recognise: - *in profit or loss:* the interest expense determined using the discount rates that applied at the date on which the contract was initially recognised; and - *in OCI:* 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.	Yes
	– If an entity chooses to present the effects of changes in discount rates and other market variables in OCI, then: - it would disclose an explanation of the method used to calculate the insurance investment expense using a cost measurement basis; - if the entity uses the simplified approach at transition to measure the accumulated balance of OCI at zero, then it would: – designate financial assets as relating to contracts in the scope of the forthcoming insurance contracts standard; and – 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.	Yes
	– 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: - the amount of interest accretion determined using current discount rates; - the effects on the measurement of the insurance contract of changes in discount rates in the period; and - 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.	Yes

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What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Presenting the effects of changes in the discount rate and other market variables in OCI (continued)	– 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.	Yes
Insurance contract revenue	– 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: - a reconciliation that separately reconciles the opening and closing balances of the components of the insurance contract asset or liability; - the inputs used when determining the insurance contract revenue that is recognised in the period; and - 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.	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

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What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Participating contracts		
The variable fee approach	– 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: - the contractual terms specify that the policyholder participates in a defined share of a clearly identified pool of underlying items; - the entity expects to pay to the policyholder an amount equal to a substantial share of returns from the underlying items; and - 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.	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
Recognising the CSM in profit or loss	– An entity would recognise the CSM in profit or loss on the basis of the passage of time.	Yes
Accounting mismatches arising from hedging activities for direct participating contracts	– 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. - That risk mitigation is consistent with the entity's risk management strategy. - 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. - Credit risk does not dominate the economic offset.	No
	– An entity would be required to: - 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 - 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.	No
	– An entity would disclose changes in the amount of the guarantee recognised in profit or loss for the period.	Yes

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What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Disaggregating changes arising from market variables – Direct participating contracts with no economic mismatches	– 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: - the insurance investment expense; and - the items held that are measured using a cost measurement basis in profit or loss – i.e. the CPBY approach.	Yes
	– 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.	Yes
	– Economic mismatches do not exist when: - 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 - the entity holds the underlying items, either by choice or because it is required to.	Yes
	– If an entity is required to change to or from the CPBY approach, then it would: - not restate the opening accumulated OCI balance; - 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: – 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 – 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; - not restate prior period comparatives; and - disclose, in the period during which the change in approach occurred: – an explanation of the reason for the change and the effect of the change on each financial statement line item affected; and – the value of the contracts that no longer qualify for the CPBY approach but previously qualified (and vice versa).	Yes
Accounting policy choice for participating contracts	– 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.	Yes
Mirroring approach	– 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.	Yes

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What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Transition		
Transition	– An entity would apply the forthcoming insurance contracts standard retrospectively in accordance with IAS 8, unless this is impracticable.	No
	– 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.	Yes
	– 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.	Yes
	– 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'). - 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. - 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.	Yes
	– If the simplified retrospective approach is impracticable, then an entity would apply a fair value approach. The entity would determine the: - 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 - 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.	Yes

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What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Transition (continued)	– 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 - the amounts in the financial statements determined at transition and in subsequent periods; and - the information proposed in paragraph C8 of the ED separately for contracts measured using the: – simplified retrospective approach; and – fair value approach.	Yes
	– 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. - 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; and – the accumulated fee for service, provided in past periods (determined by comparing the remaining coverage period with the total coverage period of the contract).	Yes
Transition – Classification and measurement of financial assets	– 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.	Yes
	– 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.	Yes
	– 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.	Yes
	– The entity would disclose its policy for designating financial assets to which the transition relief is applied.	Yes

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<table>
<tr><th>What did the IASB discuss?</th><th>What did the IASB decide?</th><th>Is there an identified change to the ED?</th></tr>
<tr><td>Transition – Classification and measurement of financial assets (continued)</td><td>– 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:
- the measurement category and carrying amount immediately before initial application;
- the new measurement category and carrying amount determined as a result of applying the transition provisions;
- 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
- 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:
– the reasons for any designation or de-designation of financial assets under the FVO; and
– an explanation of why the entity came to a different conclusion in reassessing its business model.</td><td>Yes</td></tr>
<tr><td rowspan="3">Transition – Restatement of comparative information</td><td>– On initial application of the forthcoming insurance contracts standard:</td><td></td></tr>
<tr><td>- an entity would be required to restate comparative information about insurance contracts; and</td><td>No</td></tr>
<tr><td>- 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.</td><td>Yes</td></tr>
<tr><td colspan="3">Non-targeted issues</td></tr>
<tr><td rowspan="2">Recognising the CSM in profit or loss</td><td>– 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.</td><td>No</td></tr>
<tr><td>– The service represented by the CSM would be insurance coverage that:
- is provided on the basis of the passage of time; and
- reflects the expected number of contracts in force.</td><td>Yes</td></tr>
<tr><td>Fixed-fee service contracts</td><td>– 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.</td><td>Yes</td></tr>
<tr><td>Significant insurance risk</td><td>– 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.</td><td>Yes</td></tr>
</table>

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What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Portfolio transfers and business combinations	– 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
Determining discount rates when there is a lack of observable data	– 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: - ensure that appropriate adjustments are made to observable inputs, to accommodate any differences between observed transactions and the insurance contracts being measured; and - 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.	Yes
Asymmetrical treatment of gains from reinsurance contracts	– 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
Level of aggregation	– 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
	– Guidance would be added to explain that the objective for allocating CSM is to recognise the CSM on an individual contract basis over the coverage period in a way that best represents the services provided. If there is no more service to be provided by the contract after the end of the reporting period (e.g. the contract lapses or expires), then the CSM should be fully recognised (i.e. no CSM remains).	Yes
	– An entity may group contracts for allocating the CSM if the objective above is met. It is deemed to meet the objective if: - the contracts in the group have cash flows that the entity expects will respond in similar ways to key drivers of risk in terms of amount and timing and on inception have similar expected profitability; and - the entity adjusts the allocation of the CSM in the period to reflect the expected duration and size of the contracts remaining after the end of the period.	Yes
	– 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

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What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Level of aggregation (continued)	– 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
	– A loss for onerous contracts should be recognised only when the contractual service margin is negative for a group of contracts, and that the group should comprise contracts that at inception: - had cash flows that the entity expects will respond in similar ways to key drivers of risk in terms of amount and timing; and - had similar expected profitability – i.e. similar ratio of CSM to premiums.	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
Presentation of line items	– An entity would not be required to present a separate line item for contracts measured using the variable fee approach.	No
Comparability with IFRS 15 disclosure requirements	– An entity would be required to disclose any practical expedients used.	Yes
Differing effective dates of IFRS 9 and the forthcoming insurance contracts standard		
ED/2015/11 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*	In December 2015, the IASB published their proposed amendments to IFRS 4 to address concerns of the differing effective dates of IFRS 9 and the forthcoming insurance contracts standards. View our SlideShare presentation for a high-level visual summary of the proposals. If you are unable to view the presentation online, you can download a PDF version. Read our New on the Horizon: Amendments to IFRS 4 Insurance Contracts to help you assess the potential impact of the proposed changes on your business, and how to respond to the IASB. We will continue to report on significant developments and further decisions by the IASB through our Insurance newsletters. Visit our IFRS Insurance hot topics page for more information.	N/A

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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

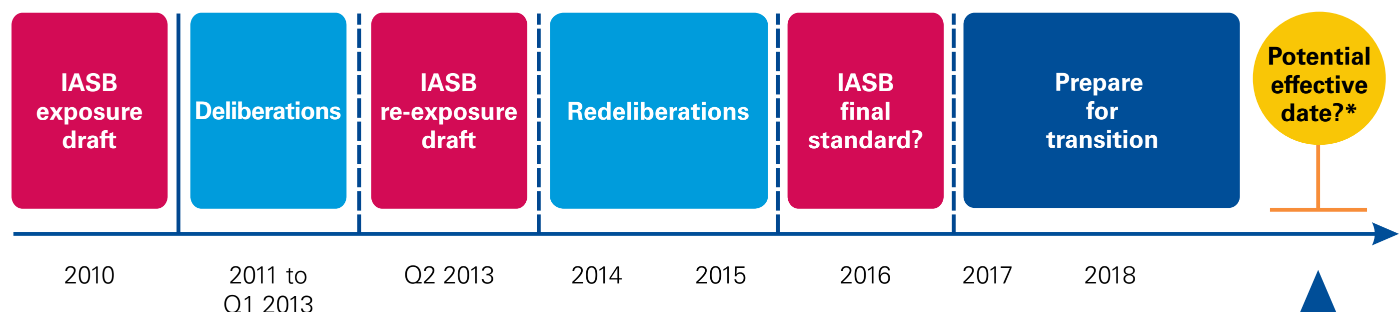
Throughout its redeliberations, the Board has considered whether the accounting for insurance contracts would be consistent with other existing or future standards, including the new revenue recognition standard – IFRS 15 *Revenue from Contracts with Customers*[5].

The Board has also considered how IFRS 9[6] might interact with the forthcoming insurance contracts standard – because IFRS 9 will cover a large majority of an insurer's investments. The IASB published exposure draft *ED/2015/11 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* in December 2015 to address some of the consequences of the differing effective dates of IFRS 9 and the forthcoming insurance contracts standard. They have requested that comments are received by 8 February 2016.

For further information and analysis of this exposure draft (including our New on the Horizon and SlideShare presentation), visit our Insurance topic page.

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.



* The effective date of the final standard is expected to be approximately three years after the standard is issued. The IASB staff expect the final standard to be published around the end of 2016. The mandatory effective date will be considered after the drafting process has already begun.

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

	KPMG publications
1	New on the Horizon: Insurance amendments (December 2015)
2	SlideShare presentation: Insurance amendments (December 2015)
3	IFRS Newsletter: Insurance (issued after IASB deliberations)
4	New on the Horizon: Insurance contracts (July 2013)
5	Challenges posed to insurers by IFRS 9's classification and measurement requirements
6	Evolving Insurance Regulation: The journey begins (March 2015)

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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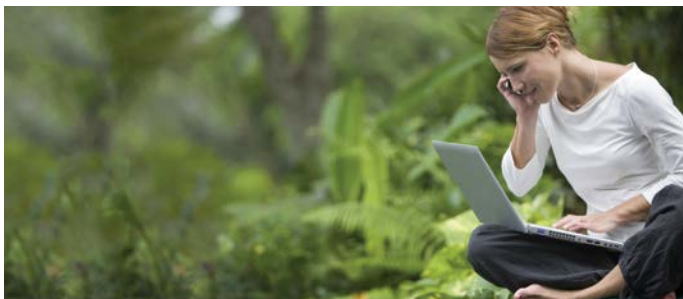
Keeping you informed



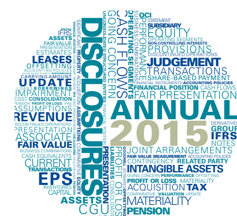
Visit kpmg.com/ifrs for the latest on IFRS.

Whether you are new to IFRS or a current user, you can find digestible summaries of recent developments, detailed guidance on complex requirements, and practical tools such as illustrative disclosures and checklists.

Helping you deal with IFRS today…

Insights into IFRS

Helping you apply IFRS to real transactions and arrangements.



Guides to financial statements

Illustrative IFRS disclosures and checklists of currently effective requirements.

Newly effective standards

US GAAP

…and prepare for IFRS tomorrow

IFRS news

IFRS newsletters

IFRS for banks

IFRS 15 for sectors

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Major new and forthcoming standards

Revenue

Financial instruments

Leases

Insurance contracts (under development)

Amendments to existing standards

Business combinations and consolidation

Presentation and disclosures

SlideShare

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