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"The Board is fine-tuning the forthcoming insurance contracts standard, and is proposing a principles-based allocation of insurance finance expenses to profit or loss."

– Joachim Kölschbach, KPMG's global IFRS insurance leader

Contents

Addressing sweep issues

At its June meeting, the IASB discussed various sweep issues that have arisen during the balloting process of the forthcoming insurance contracts standard.

Level of aggregation – Measuring the CSM after inception

The IASB specified the objective for the release of the contractual service margin (CSM), namely that the CSM at the reporting date represents the profit for the future services to be provided for a group of contracts. The group would be the same as that used to determine when contracts are onerous, and the release would reflect the expected duration and size of the contracts remaining in the group at the end of the period.

The staff also clarified that an entity can add new contracts to an existing group if, at the date the new contracts are added, they have similar characteristics to the group.

Insurance finance income or expenses

The IASB agreed to remove the objective to present insurance finance income or expenses in profit or loss on a cost measurement basis for entities that disaggregate insurance finance income or expenses between profit or loss and other comprehensive income (OCI). Additionally, they agreed to specify that in such circumstances an entity should present, in profit or loss, a 'systematic allocation' of the total expected insurance finance income or expenses over the life of the contract. They also provided guidance on how to determine the systematic allocation, and agreed that an entity does not need to disaggregate the change in the risk adjustment into a finance component and an underwriting component.

Other sweep issues

The IASB agreed to provide guidance on what changes in the fulfilment cash flows relate to future service and thus, adjust the CSM, and what changes relate to current and past service and thus, do not adjust the CSM. The Board also agreed that the variable fee approach should not apply to reinsurance contracts issued or held.

Next steps

The Board is continuing its balloting process for the forthcoming insurance contracts standard and expects to discuss the effective date in the third quarter of 2016. It expects to issue the final standard around the end of 2016.

Level of aggregation

The IASB specified the objective of measuring the CSM and the conditions for grouping contracts.

Measuring the CSM after inception

What's the issue?

In June 2014, the IASB clarified that the objective of the forthcoming insurance contracts standard is to provide principles for measuring an individual insurance contract.[1] This month, the IASB discussed an example where those principles could give different results.

The example illustrates that the change in the CSM in each period and the resulting total CSM at the end of the period could differ depending on whether the CSM is calculated at an individual contract level or at a group level.[2]

What did the staff recommend?

In the staff's opinion, these differences are unintended. They concluded that the objective to release the CSM based on the expected duration was achieved based on the calculation for a group of contracts. Accordingly, they recommended that the IASB specify that the measurement should be done at group level. This would be consistent with the decisions relating to the group level of aggregation for onerous contracts taken in January 2016.[3]

In addition, the staff proposed to address a drafting issue regarding the description of profitability used in the January 2016 meeting. Under the proposals, 'profitability' would refer to the ratio of the CSM to expected total revenue, with a practical expedient to use an alternative assessment of similar expected premiums.

Without making a recommendation, the staff also clarified that entities can add contracts to an already existing group at inception, thereby responding to a question from many constituents. An entity can add new contracts to an existing group if, at the date the new contracts are added, they have similar characteristics to the group.

What did the IASB discuss?

Most Board members supported removing the objective of measuring insurance contracts at an individual contract level for the purpose of CSM allocation. However, some were hesitant to prescribe the grouping criteria or thought that they should be more principles based – i.e. they should not include the requirements for similar key assumptions and expected profitability.

Some were concerned about the meaning of the term 'similar profitability' – they believed it could be difficult to interpret in practice – and suggested that further clarification is needed. However, one Board member suggested that the term was used deliberately and that the assessment, and the frequency of the assessment, would require management judgement.

What did the IASB decide?

The Board made the following decisions.

Area being clarified	IASB decision
Objective for the adjustment and release of the CSM	Specify that the CSM at the reporting date represents the profit for the future services to be provided for a group of contracts.

1. For more information, see Issue 41 of our *IFRS Newsletter: Insurance*.
2. For the illustrative example, see the June 2016 IASB staff paper 2A.
3. For more information, see Issue 51 of our *IFRS Newsletter: Insurance*.

Area being clarified	IASB decision
Group of contracts used to measure the CSM	Specify that the group of contracts used to measure the CSM should be the same as the group used to determine when contracts are onerous. Consequently, an entity would measure the CSM by grouping insurance contracts that, at inception, have: – expected cash flows that the entity expects will respond in similar ways to changes in key assumptions in terms of amount and timing; and – similar expected profitability – i.e. CSM as a percentage of the total expected revenue. As a practical expedient, an entity can use an assessment of the expected return on premiums – i.e. CSM as a percentage of expected premiums.
Method for allocating the CSM of a group of contracts to profit or loss	Require that when allocating the CSM of the group of contracts to profit or loss, an entity should reflect the expected duration and size of the contracts remaining in the group at the end of the period.

KPMG insight

The CSM would be released based on the expected duration and size of contracts. For expected lapses, their remaining CSM would be absorbed by the expected continuing contracts. Accordingly, the technique of releasing the CSM is conceptually equivalent to an annuity that is contingent on terminations, but at a group level.

Entities would have to determine their capabilities for releasing the CSM at a group level. For example, most current actuarial systems and databases do not have the ability to accommodate permanent groupings.

Entities may find it difficult to add new contracts to existing groups as changes in key assumptions to a new contract are unlikely to affect the cash flows of the existing group in the same way. Consequently, entities may end up with lots of separate groups of contracts, which could present additional challenges and higher costs to assess and monitor the various groups.

It will be critical that entities engage early in making decisions regarding the levels of grouping within their implementation process.

Insurance finance income or expenses

The IASB have agreed to remove the cost measurement objective for presenting insurance finance income in profit or loss.

Presentation and disclosure

What's the issue?

In September 2015, the IASB agreed:

- the objective of disaggregating changes in the measurement of an insurance contract arising from changes in financial assumptions between profit or loss and OCI – namely, to present insurance finance income or expenses[4] in profit or loss using a cost measurement basis;
- not to specify detailed mechanics for determining insurance finance income or expenses using a cost measurement basis; and
- the definition of a cost measurement basis – namely, a systematic allocation of insurance finance income or expenses over the life of the contract.[5]

This month, the Board discussed whether clarifications and changes were needed to these requirements, including whether:

- the use of the term 'cost measurement basis' was necessary;
- they should provide guidance on what the term 'systematic allocation' means; or
- revisions to the disclosure requirements are needed.

The Board also discussed whether the risk adjustment should be disaggregated into finance and underwriting components.

What did the staff recommend?[6]

Use of the term 'cost measurement basis'

The staff recommended that the forthcoming insurance contracts standard should:

- not specify that the objective of disaggregating insurance finance income or expenses between profit or loss and OCI is to present insurance finance income or expenses in profit or loss on a cost measurement basis; and
- specify that insurance finance income or expenses should be presented in profit or loss using a systematic allocation of the total expected insurance finance income or expenses over the life of the contract.

The staff noted that some of the examples they previously provided to illustrate an allocation on a systematic basis use crediting rates that do not approximate an effective yield.

4. This term has replaced that of 'insurance investment income or expenses' which was previously used by the IASB. It has been defined by the staff in the June 2016 IASB staff paper 2C as 'the change in the effect of the time value of money arising from the passage of time and the effect of changes in financial assumptions'.
5. For more information, see Issue 48 of our *IFRS Newsletter: Insurance*.
6. These recommendations are specific to presenting the effects of changes in insurance finance income or expenses in OCI only in cases when there are economic mismatches.

Guidance for the term 'systematic allocation'

The staff recommended guidance for what a systematic allocation is and how it should be determined for insurance contracts where financial assumptions *do* have a substantial effect on the amounts paid to the policyholder, and where they *do not*.

The staff noted that insurance finance income or expenses recognised in profit or loss could be based on a single effective yield or a yield curve that discounts estimated cash flows to a present value equal to the carrying amount.

Disclosures

The staff recommended that the disclosure requirement for an analysis of insurance finance income or expenses be removed because it may not be relevant for all contracts with participation features. Thus, if retained, the requirement may be applicable in some but not all cases.

The staff plan to include a specific objective to provide investors with sufficient information for them to understand the source of net finance income or expenses in the statement of profit or loss and OCI.[7]

Presentation of the risk adjustment

The staff recommended that entities not be required to disaggregate the change in the risk adjustment into a finance component and an underwriting component.

This is because they do not believe it is feasible to require entities to identify the effect of discount rate changes on the risk adjustment given the different techniques available for measuring it.

What did the IASB discuss?

Responding to a question from a Board member, the staff clarified that the recommendation not to require that the risk adjustment be disaggregated is essentially an accounting policy choice that they will include as part of the disclosure requirements for the final insurance contracts standard.

Two Board members suggested that the examples included in the staff's recommendation for determining a systematic allocation should be restrictive – i.e. an insurer would have to choose one of the methods to determine it.

7. This objective would include an expectation that entities should discuss investment margins they expect and any significant differences in the nature and duration of assets they hold compared with their insurance contract liabilities.

What did the IASB decide?

Use of the term ‘cost measurement basis’

The forthcoming insurance contracts standard would:

- not specify that the objective of disaggregating insurance finance income or expenses between profit or loss and OCI is to present insurance finance income or expenses in profit or loss on a cost measurement basis; and
- specify that insurance finance income or expenses should be presented in profit or loss using a systematic allocation of the total expected insurance finance income or expenses over the life of the contract.

Guidance for the term ‘systematic allocation’

- The forthcoming insurance contracts standard would provide guidance that a systematic allocation:
  - is based on characteristics of the contract without reference to factors that do not affect the cash flows of the contract[8]; and
  - would result in zero accumulated OCI at the termination of the contract.
- For insurance contracts for which changes in financial assumptions *do not* have a substantial effect on the amounts paid to the policyholder, the systematic allocation is determined using the discount rate(s) applicable at contract inception.
- For insurance contracts for which changes in financial assumptions *do* have a substantial effect on the amounts paid to the policyholder, a systematic allocation can be determined in one of the following ways:
  - using a constant rate; or
  - for contracts that use a crediting rate to determine amounts due to the policyholder, using an allocation that is based on the amounts credited to the policyholder in the period and those expected to be credited in future periods.

8. For example, if expected recognised returns from assets do not affect the fulfilment cash flows, they should not impact the allocation of the expected finance income or expenses.

Disclosures

The forthcoming insurance contracts standard would:

– remove the requirements to disclose a specified breakdown of total insurance finance income or expenses[9]; and

– require that an entity explains the total amount of insurance finance income or expenses in a reporting period by disclosing:

  - the relationship between insurance finance income or expenses and the investment return on the related assets the entity holds (to provide investors with sufficient information to understand the sources of net finance income or expenses recognised in profit or loss and OCI); and

  - the methods the entity uses to calculate the insurance finance income or expenses presented in profit or loss.

Presentation of the risk adjustment

An entity would not be required to disaggregate the change in the risk adjustment into a finance component and an underwriting component. If the entity does not disaggregate the risk adjustment into these components, it would present the change as part of the underwriting result.

The entity should disclose which of these two options has been used.

9. In March 2014, the Board decided that, 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.

Other sweep issues

The IASB agreed to provide guidance on which changes in the fulfilment cash flows adjust the CSM.

Adjustments to the CSM

What's the issue?

The guidance in the 2013 insurance contracts exposure draft (the ED) did not set out a general approach on how, under the general model, the CSM should be adjusted for changes in the fulfilment cash flows relating to future service, to enable consistent application of the standard.

What did the staff recommend?

The staff recommended that the insurance contracts standard should provide guidance on which changes in the fulfilment cash flows relate to future service – i.e. changes that adjust the CSM – and which changes relate to current and past service – i.e. those that do not adjust the CSM.

What did the IASB discuss?

One Board member did not support the staff's recommendation, because he was concerned that it may result in excessive adjustment of the CSM, rather than presenting adjustments in the statement of profit or loss and OCI for events occurring in the current period.

What did the IASB decide?

The IASB agreed to add guidance to the standard to clarify that the CSM is not adjusted for an experience adjustment or a change in the present value of future cash flows caused by changes in financial assumptions.

Also, in general, an entity would regard experience adjustments as relating to current or past services, and changes in estimates of future cash flows as relating to future services. However, circumstances where this does not apply include those listed below.

- Changes in the liability for remaining coverage as follows.
  - Experience adjustments arising from premiums paid in the period that relate to future services. These experience adjustments relate to future service.
  - The effect of events that result in an experience adjustment that causes a change in the estimate of future cash flows. The combined effect is regarded as relating to future service. For example, the CSM would be adjusted for the net effect of any delay or acceleration in repayments of investment components.
- Changes in estimates of incurred claims, which relate to current or past services.

KPMG insight

The staff paper mentioned an example of an event giving rise to an experience adjustment that causes a change in estimates of future cash flows. This aspect of the revised wording may be regarded as an exception to the objective of distinguishing changes relating to future service from changes relating to current or past service.

The objective suggests that the experience adjustment and the change in future estimates should not be combined. However, the staff argued that it would not give a faithful representation of the single event if a gain or a loss were recognised in the current period when a consequential gain or loss would also need to be recognised in the future.

Thus, any net effect that impacts future services should be considered together with the current impacts.

The IASB agreed that the variable fee approach should not apply to reinsurance contracts issued or held.

Reinsurance contracts and the scope of the variable fee approach

What's the issue?

In June 2015, the IASB specified the scope of the contracts in scope of the variable fee approach.[10] Some types of reinsurance contracts issued and held might meet the criteria as currently drafted.

The variable fee approach was developed to address situations in which the policyholder pays a premium and expects to receive both insurance coverage and investment returns in excess of the premium paid.

In contrast, in a reinsurance contract issued:

- the cedant pays a premium but does not generally expect to receive reimbursements greater than the premium paid – i.e. the reinsurer does not provide a cedant with a return on underlying items and keep a proportion for itself as a fee; and
- the profit the reinsurer earns is not a fee for providing investment management services, it is earned from providing reinsurance coverage.

What did the staff recommend?

The staff believes that the Board did not intend for reinsurance contracts issued and held to be in the scope of the variable fee approach. They proposed that the eligibility criteria for the variable fee approach should be modified to exclude such contracts.

10. For more information, see Issue 46 of our *IFRS Newsletter: Insurance*.

What did the IASB decide?

The IASB decided that an entity should not apply the variable fee approach to reinsurance contracts issued or reinsurance contracts held.

KPMG insight

Some interested parties suggested that the IASB should make the treatment of the CSM for reinsurance contracts held consistent with the treatment of the CSM for the underlying insurance contracts issued. However, the staff did not agree with this suggestion because a reinsurance contract is economically different from a direct insurance contract.

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
	– The CSM is not adjusted for an experience adjustment or a change in the present value of future cash flows caused by changes in financial assumptions.	Yes
	– An entity would regard experience adjustments as relating to current or past services, and changes in estimates of future cash flows as relating to future services. However, circumstances where this does not apply include those listed below. - Changes in the liability for remaining coverage as follows. – Experience adjustments arising from premiums paid in the period that relate to future services. These experience adjustments relate to future service. – The effect of events that result in an experience adjustment that causes a change in the estimate of future cash flows. The combined effect is regarded as relating to future service. For example, the CSM would be adjusted for the net effect of any delay or acceleration in repayments of investment components. - Changes in estimates of incurred claims, which relate to current or past services.	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

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Targeted issues (continued)		
Unlocking the CSM (continued)	– 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 finance income or expenses 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 financial assumptions between profit or loss and OCI is to present in profit or loss a systematic allocation of the total expected insurance finance income or expenses over the life of the contract.	Yes
	– A systematic allocation is based on characteristics of the contract without reference to factors that do not affect the cash flows of the contract[11] and would result in zero accumulated OCI at the termination of the contract. - Further, for insurance contracts for which changes in financial assumptions *do not* have a substantial effect on the amounts paid to the policyholder, the systematic allocation is determined using the discount rate(s) applicable at contract inception. - For insurance contracts for which changes in financial assumptions *do* have a substantial effect on the amounts paid to the policyholder, a systematic allocation can be determined in one of the following ways: – using a constant rate; or – for contracts that use a crediting rate to determine amounts due to the policyholder, using an allocation that is based on the amounts credited to the policyholder in the period and those expected to be credited in future periods.	Yes

11. For example, if expected recognised returns from assets do not affect the fulfilment cash flows, they should not impact the allocation of the expected finance income or expenses.

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Targeted issues (continued)		
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 *Accounting Policies, Changes in Accounting Estimates and Errors*, 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 finance income or expenses;
	- 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

	– An entity should explain the total amount of insurance finance income or expenses in a reporting period by disclosing: - the relationship between insurance finance income or expenses and the investment return on the related assets the entity holds (to provide investors with sufficient information to understand the sources of net finance income or expenses recognised in profit or loss and OCI); and - the methods the entity uses to calculate the insurance finance income or expenses presented in profit or loss.	Yes
	– An entity would not be required to disaggregate the change in the risk adjustment into a finance component and an underwriting component. If the entity does not disaggregate the risk adjustment into these components, it would present the change as part of the underwriting result. The entity should disclose which of these two options has been used.	Yes

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Targeted issues (continued)		
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
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

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Participating contracts (continued)		
The variable fee approach (continued)	– 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
	– An entity should not apply the variable fee approach to reinsurance contracts issued or reinsurance contracts held.	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
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 finance income or expenses that eliminates accounting mismatches in profit or loss between: - the insurance finance income or expenses; and - the items held that are measured using a systematic allocation in profit or loss – i.e. the current period book yield (CPBY) approach.	Yes

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Participating contracts (continued)		
Disaggregating changes arising from market variables – Direct participating contracts with no economic mismatches (continued)	– 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 finance income or expenses 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

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 finance income or expenses (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 insurance finance income or expenses using a systematic allocation 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 finance income or expenses 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

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Transition (continued)		
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

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Transition (continued)		
Transition – Classification and measurement of financial assets (continued)	– 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.	Yes
Transition – Restatement of comparative information	– On initial application of the forthcoming insurance contracts standard: - an entity would be required to restate comparative information about insurance contracts; and	No
	- 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.	Yes
Non-targeted issues		
Recognising the CSM in profit or loss	– 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: - is provided on the basis of the passage of time; and - reflects the expected number of contracts in force.	Yes
Fixed-fee service contracts	– 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

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Non-targeted issues (continued)		
Significant insurance risk	– 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
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
	– The objective for the adjustment and allocation of the CSM would be that the CSM at the reporting date represents the profit for the future services to be provided for a group of contracts.	Yes
	– An entity should measure the CSM by grouping insurance contracts that, at inception, have: - expected cash flows that the entity expects will respond in similar ways to changes in key assumptions in terms of amount and timing; and - similar expected profitability – i.e. CSM as a percentage of the total expected revenue. – As a practical expedient, an entity can use an assessment of the expected return on premiums – i.e. CSM as a percentage of expected premiums.	Yes
	– When allocating the CSM of the group of contracts to profit or loss, an entity should reflect the expected duration and size of the contracts remaining in the group at the end of the period.	Yes

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Non-targeted issues (continued)		
Level of aggregation (continued)	– 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
	– 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: - have expected cash flows that the entity expects will respond in similar ways to key assumptions in terms of amount and timing; and - have similar expected profitability – i.e. similar ratio of CSM to total expected revenue. – As a practical expedient, an entity can use an assessment of the expected return on premiums – i.e. ratio of CSM to expected 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. In May 2016 the IASB completed its redeliberations of their proposed amendments and expects to issue the final amendments in September 2015. 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. Read about the changes to the proposed amendments in Issue 54 of our *IFRS Newsletter: Insurance*.	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

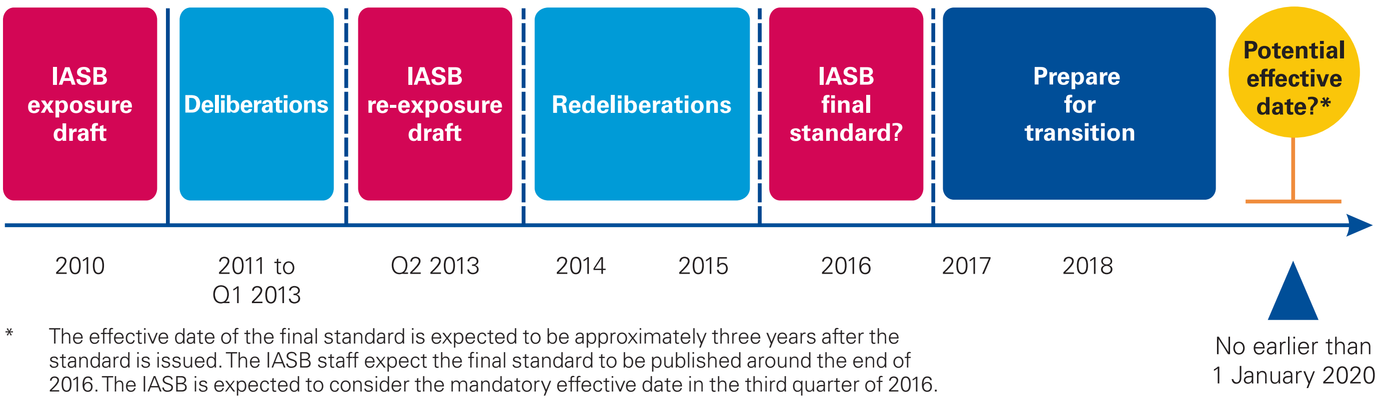
Throughout its redeliberations, the Board has considered whether the accounting for insurance contracts would be consistent with other existing or future standards, including the new revenue recognition standard – IFRS 15 *Revenue from Contracts with Customers*.[12]

The Board has also considered how IFRS 9[13] 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. The final amendments are expected to be issued in September 2015.

For further information and analysis of this exposure draft (including our New on the Horizon and SlideShare presentation) and the IASB's redeliberations of their proposed amendments, visit our Insurance topic page.

12. See our Issues In-Depth: Revenue from Contracts with Customers and First Impressions.

13. 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 IASB is expected to consider the mandatory effective date in the third quarter of 2016.

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

KPMG publications
New on the Horizon: Insurance amendments (December 2015)
SlideShare presentation: Insurance amendments (December 2015)
IFRS Newsletter: Insurance (issued after IASB deliberations)
New on the Horizon: Insurance contracts (July 2013)
Challenges posed to insurers by IFRS 9's classification and measurement requirements
Evolving insurance risk and regulation: Preparing for the future (June 2016)
Accounting for insurance contracts is changing (May 2016)

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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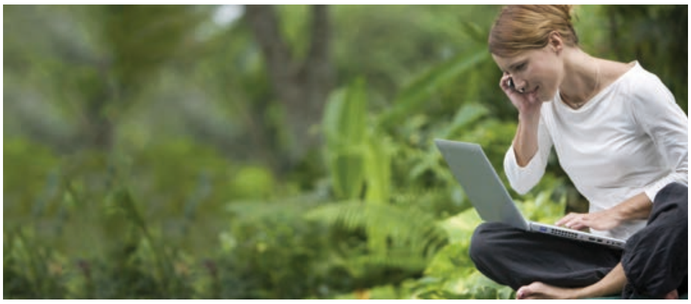
Keeping you informed



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Amendments to existing standards

Business combinations and consolidation

Presentation and disclosures

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