



cutting through complexity

“While working to address the consequences of differing effective dates, the IASB continues to make progress on participating contracts and the completion of its redeliberations appears to be near.”

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insurance leader



MOVING TOWARDS INTERNATIONAL INSURANCE ACCOUNTING

This edition of *IFRS Newsletter: Insurance* highlights the IASB's discussions in October 2015 on its insurance contracts project.

Highlights

Addressing the consequences of differing effective dates

- The IASB agreed on a comment period of 60 days for the exposure draft to amend IFRS 4.

Classification and measurement of financial assets on transition

- A 'designation approach' would be applied to reassess the business model for managing financial assets on transition.
- The Board confirmed the restatement of comparative information about insurance contracts and that it would not be mandatory for transition reliefs for financial assets.

Mirroring approach

- The Board decided not to proceed with the mirroring approach as proposed in the ED.

Presentation and disclosure assessments

- The IASB made decisions on presentation and disclosure requirements based on previous decisions made since publishing the ED.
- The IASB considered the overall disclosure requirements in light of feedback received from stakeholders.

DECISIONS ON TRANSITION, PRESENTATION AND DISCLOSURE AND DIFFERING EFFECTIVE DATES

The story so far ...

The current phase of the insurance project was launched in May 2007, when the IASB published a discussion paper (DP), *Preliminary Views on Insurance Contracts*. More recently, the IASB 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. It initially focused on the model for non-participating contracts and has now turned its focus to modifications for participating contracts.

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*¹. Much of the guidance contained in the ED was designed to align with the IASB's and the FASB's joint standard on revenue recognition.

The Board has also considered many of the decisions made in the new financial instruments standard, IFRS 9² – including the way in which IFRS 9 might interact with the final insurance contracts standard – because IFRS 9 will cover a large majority of an insurer's investments. Additionally, the Board has examined how best to address the consequences of the differing effective dates of IFRS 9 and the forthcoming insurance contracts standard.

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What happened in October 2015?

At its October meeting, the IASB agreed on a comment period of 60 days for the exposure draft to amend IFRS 4 *Insurance Contracts* and decided that first-time adopters of IFRS would be prohibited from applying the deferral and overlay approaches. The IASB had previously discussed these approaches as temporary measures to address the accounting consequences of applying IFRS 9 before the forthcoming insurance contracts standard. The staff expect the exposure draft to amend IFRS 4 to be issued in December 2015 and any finalised amendments to be issued during Q3 2016.

Also this month, the Board decided that the scope applied when designating financial assets as relating to insurance activities for the overlay approach³ would also apply when assessing which financial assets would be subject to transition reliefs on transition to the forthcoming insurance contracts standard.

On initial application of the forthcoming insurance contracts standard, the Board decided that:

- an entity would be required to restate comparative information for insurance contracts; and
- an entity that has previously applied IFRS 9 would be permitted (but not required) to restate comparative information about financial assets relating to insurance activities only if:
 - it is possible without the use of hindsight; and
 - the entity chooses to apply the transition reliefs in the forthcoming insurance contracts standard.

During its June 2015 meeting, the Board had agreed to modify the general measurement model for participating contracts (the 'variable fee approach'). It introduced the variable fee approach to address some stakeholder concerns over the approach for participating contracts proposed in the ED. The Board therefore decided this month not to pursue the mirroring approach proposed in the ED.

The IASB also considered presentation and disclosure requirements for insurance contracts. It revisited various decisions that it has made since publishing the ED, and considered how effective they would be in responding to feedback received from preparers and users of financial statements.

The IASB has now completed most of its redeliberations. The remainder, which include evaluating the differences between the general model and the variable fee approach for participating contracts, will be discussed at a later meeting. An effective date will not be discussed until all other redeliberations have been completed.

1. See our [Issues In-Depth: Revenue from Contracts with Customers](#) (September 2014). In July 2015, the IASB published targeted amendments to the new standard. For more detail, read our [New on the Horizon](#).

2. See our [First Impressions: Financial instruments – The complete standard](#) (September 2014).

3. For more information, see [Issue 48](#) of our *IFRS Newsletter: Insurance*.

ADDRESSING THE CONSEQUENCES OF DIFFERING EFFECTIVE DATES

The IASB agreed on a comment period of 60 days for the exposure draft to amend IFRS 4.

What's the issue?

At its September 2015 meeting, the IASB completed its deliberations on the proposed measures to address the temporary accounting consequences that might arise from applying IFRS 9 before the forthcoming insurance contracts standard becomes effective. It agreed that the proper due process has been completed and that it can begin to ballot the exposure draft to amend IFRS 4. The package of temporary measures, if it is confirmed, would amend IFRS 4 to:

- permit a reporting entity whose activities are predominantly insurance a temporary exemption from applying IFRS 9 until 1 January 2021 (the 'deferral approach'); and
- give entities issuing insurance contracts that implement IFRS 9 the option to remove from profit or loss some of the accounting mismatches and temporary volatility that could occur before the forthcoming insurance contracts standard is implemented (the 'overlay approach').

Further, if these changes are confirmed, both approaches would be relevant for first-time adopters in periods after IFRS 9 becomes effective, and the overlay approach would also be relevant for first-time adopters that early apply IFRS 9. Consequently, the Board needed to consider whether entities that are preparing their first IFRS financial statements should be permitted to apply these two approaches.

Applicability of the approaches to first-time adopters of IFRS

The staff argued that few first-time adopters of IFRS were likely to apply the overlay and deferral approaches, even if they were permitted to. This is because applying these approaches may be more costly than applying IFRS 9 in full, because first-time adopters of IFRS are unlikely to have applied requirements that are similar or identical to IAS 39 *Financial Instruments: Recognition and Measurement* before preparing their first set of IFRS financial statements and the application of either of these approaches would require an entity to provide information that would result from applying IAS 39, in full or in part.

The staff considered whether the deferral and overlay approaches would be relevant for first-time adopters of IFRS, noting that they were intended to address temporary accounting consequences that could arise when an entity makes the transition from IAS 39 to IFRS 9. This would not be a concern for first-time adopters of IFRS, which would be making the transition from their previous local financial reporting requirements to IFRS 9.

The staff also believed that prohibiting the deferral and overlay approaches for first-time adopters would be consistent with IFRS 1 *First-Time Adoption of International Financial Reporting Standards*, which requires first-time adopters of IFRS to apply the current versions of IFRS to enhance comparability within an entity over time.

What did the staff recommend?

The staff recommended that the IASB:

- allow for a comment period of 60 days for the exposure draft to amend IFRS 4; and
- prohibit first-time adopters of IFRS from applying the deferral and overlay approaches.

What did the IASB discuss?

The staff informed the Board that the Due Process Oversight Committee had approved a comment period of no less than 60 days.

What did the IASB decide?

The IASB agreed with the staff recommendation.

KPMG insight

Comment period

A comment period of 60 days would expedite the finalisation of any amendments to IFRS 4.

Although the implementation period would be compressed, the overlay and deferral approaches would not need a typical implementation period because the overlay approach builds on information that is already reported by entities in accordance with IAS 39 and the deferral approach results in a temporary exemption from IFRS 9, with the exception of limited disclosures.

First-time adopters

This decision would not affect a first-time adopter of IFRS that prepares its first IFRS financial statements using IAS 39 for reporting periods that end before 1 January 2018. In other words, a first-time adopter of IFRS that prepares its first IFRS financial statements under IAS 39 would be allowed to use the deferral and overlay approaches when it prepares financial statements in subsequent periods.

First-time adopters of IFRS that intend to adopt IFRS 9 in their first IFRS financial statements before implementing the forthcoming insurance contracts standard would consider whether any accounting mismatches will arise from the differing effective dates of the two standards, given that they would be prohibited from using the deferral and overlay approaches. In place of these approaches, these entities could consider using accounting policies that are consistent with the requirements of the forthcoming insurance contracts standard or early adopting the forthcoming insurance contracts standard, once it is available. The transition reliefs available on adopting the forthcoming insurance contracts standard would also be available to these entities.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS ON TRANSITION

A 'designation approach' would be applied to reassess the business model for managing financial assets on transition.

Scope for reassessment of the business model

What's the issue?

At its January 2015 meeting, the Board decided to confirm the transition relief proposed in the ED, which would mean that, on initial application of the forthcoming insurance contracts standard, an entity that has previously applied IFRS 9 would be:

- permitted to designate financial assets under the fair value option (FVO) as measured at fair value through profit or loss (FVTPL) to eliminate or significantly reduce accounting mismatches;
- required to revoke previous FVO designations if the accounting mismatch that led to the previous designation no longer exists; and
- permitted to designate an investment in an equity instrument as measured at fair value through other comprehensive income (FVOCI) and to revoke previous designations.

The Board decided to consider providing further transition relief to permit or require an entity to reassess the business model for financial assets designated as relating to insurance activities, at the date of initial application of the forthcoming insurance contracts standard. This would be based on the conditions that exist at that date.

In making these decisions, the IASB noted that it would need to consider the following:

- the financial assets to which the further transition relief should apply; and
- if the classification and/or measurement of financial assets changes as a result of applying the further transition relief:
 - whether the change should be applied prospectively or retrospectively, and how any resulting gains or losses should be treated; and
 - what information should be disclosed.

What did the staff recommend?

Topic	Staff recommendations and considerations
Financial assets designated as relating to insurance activities to which the further transition relief should apply	What did the staff recommend? Consistent with the approach to identifying financial assets that relate to insurance activities under the overlay approach, the staff recommended that the reassessment of the business model for managing financial assets on transition to the forthcoming insurance contracts standard apply to financial assets that an entity designates as related to insurance activities.

Topic	Staff recommendations and considerations
Financial assets designated as relating to insurance activities to which the further transition relief should apply (continued)	<p>What else did the staff consider?</p> <p>The staff believed that introducing another approach for identifying financial assets that relate to insurance activities would increase the complexity of financial reporting for preparers and users.</p> <p>Consistent with the designation under the overlay approach, the designation of financial assets for the purposes of the reassessment of the business model would apply to both:</p> <ul style="list-style-type: none"> • financial assets that the entity holds to fund the settlement of liabilities arising from expected levels of insurance claims and expenses; and • additional (or surplus) assets that an entity needs to hold in case insured events are more frequent or more severe, or require settlement sooner than expected. <p>Using an approach consistent with the designation under the overlay approach would exclude financial assets that are clearly held in respect of activities other than issuing contracts in the scope of IFRS 4.</p>
Optional or mandatory reassessment of the business model	<p>What did the staff recommend?</p> <p>Reassessing the business model for managing financial assets on transition to the forthcoming insurance contracts standard would be permitted rather than required.</p> <p>What else did the staff consider?</p> <p>The staff noted that the objective of providing relief for the reassessment of the business model is to address the fact that, for some entities, the assessment of the business model based on facts and circumstances that exist when the forthcoming insurance contracts standard is initially applied could be different from the assessment based on facts and circumstances that existed when IFRS 9 was initially applied. However, that would not be the case for all entities that issue insurance contracts. The staff therefore thought that entities that do not face such an issue should not be forced to reassess the business model.</p>
Application of the reliefs for classification and measurement	<p>What did the staff recommend?</p> <p>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 other comprehensive income (OCI) presentation election for investments in equity instruments should be based on the facts and circumstances that exist on initial application of that standard – i.e. the beginning of the latest period presented.</p> <p>The resulting classifications would be applied retrospectively – i.e. as if the financial assets had always been so classified – 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.</p>

Topic	Staff recommendations and considerations
Application of the reliefs for classification and measurement (continued)	<p data-bbox="655 371 1050 405">What else did the staff consider?</p> <p data-bbox="655 423 1485 707">The staff noted that this treatment would be consistent with the transition requirements in IFRS 9 and that it would be difficult for an entity to assess the business model for managing financial assets based on facts and circumstances that existed in the past, particularly without the use of hindsight. The staff also believed that it would be more appropriate to reassess the business model on the basis of the current facts and circumstances so that an entity can more accurately reflect its business model for managing financial assets when it initially applies the forthcoming insurance contracts standard.</p>
Disclosure requirements	<p data-bbox="655 730 1038 763">What did the staff recommend?</p> <p data-bbox="655 781 1434 842">The entity should disclose its policy for designating financial assets to which the transition relief is applied.</p> <p data-bbox="655 860 1469 983">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:</p> <ul data-bbox="655 1001 1485 1592" style="list-style-type: none"> <li data-bbox="655 1001 1453 1061">• the measurement category and carrying amount immediately before initial application; <li data-bbox="655 1079 1469 1140">• the new measurement category and carrying amount determined as a result of applying the transition provisions; <li data-bbox="655 1158 1485 1281">• the amount of any financial assets in the statement of financial position that were previously designated under the FVO but are no longer so designated, distinguishing between those that the entity was required to de-designate and those that it elected to de-designate; and <li data-bbox="655 1299 1485 1592">• qualitative information that would enable users of the financial statements to understand how the entity has applied the transition provisions to those financial assets whose classification has changed as a result of initial application, including: <ul style="list-style-type: none"> <li data-bbox="687 1449 1469 1509">– the reasons for any designation or de-designation of financial assets under the FVO; and <li data-bbox="687 1527 1437 1592">– an explanation of why the entity came to a different conclusion in reassessing its business model. <p data-bbox="655 1610 1050 1644">What else did the staff consider?</p> <p data-bbox="655 1662 1485 1915">The staff noted that the IASB has already developed and issued disclosure requirements for changes in the classification and measurement of financial assets as a result of applying different versions of IFRS 9 – e.g. if an entity initially applies IFRS 9 (2009) and subsequently applies IFRS 9 (2014). The staff thought that these disclosure requirements would provide useful information for changes in the classification and measurement of financial assets on transition to the forthcoming insurance contracts standard.</p>

The Board confirmed the restatement of comparative information for insurance contracts and that it would not be mandatory for transition reliefs for financial assets.

What did the IASB discuss?

Topic	What did the IASB discuss?
Optional or mandatory reassessment of the business model	<p>The Board discussed the objective of reassessing the business model on initial application of the forthcoming insurance contracts standard, and noted that:</p> <ul style="list-style-type: none"> the objective is different from the objective of reclassification under IFRS 9; the reassessment is based on the facts and circumstances that exist at the date of the initial application of the forthcoming insurance contracts standard; the reassessment is similar to initially applying IFRS 9 again; and the intention is to provide a one-time transition relief.
Disclosure requirements	<p>One Board member believed that qualitative information would not be useful because it would refer simply to reclassifying because the new standard allowed it. However, other members agreed with the staff that the qualitative disclosures would be relevant, because they would disclose the changes in facts and circumstances that led to changes in the business model assessment. These disclosures would help to provide assurance that the transition relief was used only when appropriate.</p>

What did the IASB decide?

The IASB agreed with the staff recommendation.

Restatement of comparative information on initial application

What's the issue?

At present, entities that issue insurance contracts in the scope of IFRS 4 account for financial assets under IAS 39. In the future, these entities will have to account for:

- financial assets under IFRS 9; and
- insurance contracts under the forthcoming insurance contracts standard.

The Board has reached different conclusions on the restatement of prior-period comparative information under IFRS 9 and in its redeliberations on the forthcoming insurance contracts standard.

The different transition approaches are as follows:

- IFRS 9 contains certain exemptions from full retrospective application for the classification and measurement requirements, including impairment. If an entity does not restate prior periods, then it would recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening balance of equity. Entities would be allowed to restate comparatives if this is possible without the use of hindsight; and
- the ED would require an entity to apply the forthcoming insurance contracts standard retrospectively to measure existing insurance contracts at the beginning of the earliest period presented using the following approaches:

- retrospective application, unless this is impracticable as defined in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- a simplified approach, if full retrospective application is impracticable; or
- a fair value approach to retrospective application, in cases where both full retrospective application and the simplified approach are impracticable.

The IASB considered two situations based on the differing transition approaches:

- an entity initially applies IFRS 9 at the same time as it initially applies the forthcoming insurance contracts standard; and
- an entity applies IFRS 9 before it initially applies the forthcoming insurance contracts standard.

The staff considered that:

- any recommended approaches should be consistent with the transition principles of IFRS 9 and the forthcoming insurance contracts standard; and
- the presentation of comparable information about insurance contracts on the face of the financial statements is important for assessing the results of the new model, even if the equivalent information for financial assets is not required due to IFRS 9 transition reliefs.

For entities that apply IFRS 9 before the forthcoming insurance contracts standard, the staff thought that, when setting the provisions for restatements of comparative information about financial assets, any decision should aim to arrive at transition requirements that are consistent with (and do not create a disadvantage compared with):

- those provided in IFRS 9 for the initial application of that standard; and
- those that would apply to entities that apply IFRS 9 and the forthcoming insurance contracts standard at the same time.

What did the staff recommend?

The staff recommended that on initial application of the forthcoming insurance contracts standard:

- an entity be required to restate comparative information about insurance contracts (regardless of when it initially applies IFRS 9); and
- if an entity has applied IFRS 9 before the forthcoming insurance contracts standard, it be permitted to restate comparative information about financial assets on adoption of the latter only if this is possible without hindsight and if the entity chooses to apply the following transition reliefs in the forthcoming insurance contracts standard:
 - to designate or de-designate financial assets under the FVO or OCI presentation election for investments in equity instruments; and
 - to reassess the business model for managing financial assets.

What did the IASB discuss?

The Board noted that it would be possible for an entity to restate its financial assets on initial application of the forthcoming insurance contracts standard without the use of hindsight, if it plans accordingly and begins to track the appropriate data when it applies IFRS 9. One Board member believed that the use of hindsight could be less of a barrier in practice, given that entities are aware of the new standards on the horizon and would be able to plan accordingly.

What did the IASB decide?

The Board agreed with the staff recommendations.

KPMG insight

Insurers will face a major challenge in implementing IFRS 9 alongside the forthcoming insurance contracts standard. To support them during this transition, the IASB has developed specific transition reliefs for insurance activities. This month's decision to specify the same scope for reassessing the business model for managing financial assets on adoption of the forthcoming insurance contracts standard as for applying the overlay approach should reduce operational costs and complexities for an entity that chooses to apply IFRS 9 with the overlay approach before it initially applies the forthcoming insurance contract standard.

The Board seems to be focused on maintaining the objective of retrospective application of the forthcoming insurance contracts standard. Modifying this objective might cause insurers more complexity while making the transition and would create further comparability issues.

It is unclear whether entities that apply the overlay approach would be required to restate comparative information to reverse out overlay adjustments on initial application of the forthcoming insurance contracts standard (because the overlay approach would flow from amendments to IFRS 4) or whether this would be permitted (because the overlay approach relates to accounting for financial assets) or prohibited (because this was not mentioned as an option in September's discussion).

MIRRORING APPROACH

The Board decided not to proceed with the mirroring approach as proposed in the ED.

Should the forthcoming insurance contracts standard retain the mirroring approach from the ED?

What's the issue?

Many constituents were concerned about the complexities of the mirroring proposals in the ED⁴ – i.e. bifurcating or decomposing cash flows – and potential different measurement outcomes for some participating contracts.

Some stated that they would prefer all insurance contracts to be measured in the same way, because otherwise comparability would be reduced.

It was in light of this feedback that the Board developed the variable fee approach for direct participating contracts. Under the variable fee approach, a direct participating contract would be viewed as a contract in which the entity has an obligation to pay to the policyholder 100 percent of the fair value of the underlying items less a variable fee for service.

However, a few constituents expressed a belief that a mirroring approach was necessary for mutual insurers because the effect of accounting mismatches between assets that cannot be measured at fair value and fulfilment cash flows measured at current value can have a significant impact on their reported financial position and performance.

One consequence of retaining the mirroring approach for mutual insurers would be that two identical insurance contracts would be measured on a different basis only because one was issued by a mutual insurer, rather than a proprietary insurer. The staff noted that the IASB's general principle is that economically similar products should be accounted for in a similar way regardless of the legal form of the entity holding or issuing the product.

What did the staff recommend?

The staff recommended that the Board does not proceed with the mirroring approach proposed in the ED for measuring participating insurance contracts – i.e. it would not be permitted or required in the forthcoming insurance contracts standard.⁵

What did the IASB discuss?

One Board member noted that the Board should be careful not to mislead preparers and users into thinking that no mutual insurer can have equity. Various Board members provided examples whereby mutual entities could have equity and net income, and they tended to agree that there could be circumstances in which a mutual insurer may have equity and net income. The Board also discussed the presentation example provided by the staff in Agenda Paper 2C⁶.

What did the IASB decide?

The Board agreed with the staff recommendation.

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

5. During the IASB's June 2015 meeting, it agreed to modify its general measurement model for participating contracts; this modification is also known as the 'variable fee approach'. The Board introduced the variable fee approach to address some of the stakeholders' concerns about the mirroring approach proposed in the ED.

6. For the specific examples provided by the staff, see pages 9–10 of [Agenda Paper 2C](#).

KPMG insight

To avoid diversity in practice, the IASB has maintained its stance that the standard should contain principles based on the economic substance of a contract or policy, rather than the legal form of the issuer.

In some cases, the fulfilment cash flows of a mutual entity's insurance contract liabilities may include the rights of policyholders to the whole of any surplus of assets over liabilities. This would imply that there should be no equity or net income remaining for those mutual entities for whom this is the case. However, there may be accounting mismatches due to the difference in the measurement bases of assets and liabilities that result in a mutual entity reporting liabilities that are greater than the recognised assets. An entity could provide additional disclosures to explain this effect on their financial statements.

For proprietary insurers, accounting mismatches may also arise under the variable fee approach if policyholders participate in statutory surplus. This may result in a significant impact to profit or loss.

PRESENTATION AND DISCLOSURE ASSESSMENTS

The IASB made decisions on presentation and disclosure requirements based on previous decisions made since publishing the ED.

Revisiting previous decisions

What's the issue?

Since publishing the ED in June 2013, the Board has made several decisions during its redeliberations, some of which included disclosure decisions; for others, the Board reserved presentation and disclosure decisions for a later time. This month, the Board considered the following previous decisions from a presentation and disclosure perspective.

Previous decision		Where to find further information
Is there a need to present a separate line item in the statement of financial position relating to contracts with direct participation features?		
Variable fee approach	For direct participating contracts, the contractual service margin (CSM) would be unlocked for changes in the estimate of the variable fee for service that the entity expects to earn.	See Issue 46 of our <i>IFRS Newsletter: Insurance</i>
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.	Issue 48
Is there a need to disclose in the notes to the financial statements information about the presentation of interest expense in profit or loss and OCI?		
Accounting policy choice – Interest expense reconciliation	For all contracts, an entity would choose to present the effect of changes in discount rates and market variables in profit or loss or OCI within a portfolio.	Issue 38
Participating contracts – Determining insurance investment expense	The IASB would not specify detailed mechanics for determining the insurance investment expense using a cost measurement basis.	Issue 48
Transition simplification – Determining insurance investment expense	When full retrospective application is impracticable for contracts whose objective is to present an insurance investment expense using a cost measurement basis in profit or loss, an entity may simplify the determination of insurance investment expense and the accumulated OCI balance when it first applies the forthcoming insurance contracts standard by measuring the accumulated OCI balance at zero.	Issue 48

Is there a need for a separate line item in the statement of financial position relating to contracts with direct participation features?

Based on the Board's previous decisions, the variable fee approach would measure contracts differently from the general model. Accordingly, the Board needed to consider whether a separate

line item should be required for contracts measured using the variable fee approach. The staff considered the following points.

Variable fee approach

- The defining feature of contracts measured under both the variable fee approach and the general model is the presence of significant insurance risk.
- IAS 1 *Presentation of Financial Statements* does not require financial assets or financial liabilities measured on different bases to be presented as separate items.
- Specific features of these contracts might be explained in the notes to the financial statements.

Hedging activities for direct participating contracts

- There would be a lack of comparability between insurance contracts, depending on whether an entity elects to present changes in the value of guarantees embedded in an insurance contract in profit or loss.
- As part of its hedge accounting deliberations, the IASB has rejected a proposal for an entity to present an adjustment from applying fair value hedge accounting in a separate line item in the statement of financial position due to concerns expressed by stakeholders.

Is there a need to disclose in the notes to the financial statements information about the presentation of interest expense in profit or loss and OCI?

The staff reviewed this topic in light of the decisions taken by the Board since the ED was published, and noted the following considerations.

Accounting policy choice – Interest expense reconciliation

- Under the Board's decisions in March 2014, for portfolios of insurance contracts for which the effects of changes in discount rates are presented in OCI, a reconciliation that disaggregates interest expense into the amounts recognised in profit or loss and in OCI would be required to be disclosed so that the total interest expense would be disclosed in a single location in the notes to the financial statements.
- The staff observed that this analysis would not provide new information but rather organise information that already exists within the financial statements in a different manner.
- The staff noted that the analysis of total interest expense into the effects of changes in discount rates and other changes would provide limited information for contracts to which the current period book yield (CPBY) approach could be applied.

Participating contracts – Determining insurance investment expense

- Entities may use different methods to achieve a cost measurement basis, because the Board has not specified detailed mechanics for calculating this amount.
- Additional transparency about the method used would enable users to assess the comparability of information.

Transition simplification

- As a consequence of the IASB's previous decision, an entity:
 - might not reclassify amounts to profit or loss from OCI relating to insurance contracts held at the date of initial application; but
 - would reclassify amounts to profit or loss from OCI relating to any investments that the entity holds at that date.

Other considerations – IFRS 15 disclosure comparison

The staff also considered the relevance of the disclosure requirements in IFRS 15. Based on the staff's analysis, overall the proposals in the ED are consistent with the core principles of IFRS 15. However, the staff identified that IFRS 15 requires the disclosure of information about practical expedients; this was not proposed in the ED.

What did the staff recommend?

Presentation in the statement of financial position

The staff recommended that the IASB confirm the ED's proposals on the presentation of line items relating to insurance contracts in the financial statements – i.e. presentation of a separate line item for contracts measured using the variable fee approach would not be required.

Disclosure of information in the notes to the financial statements

The staff recommended that the IASB:

- require an entity that measures contracts using the variable fee approach and recognises changes in the value of a guarantee embedded in an insurance contract in profit or loss to disclose the amount of the CSM with and without the cumulative amount of the guarantee recognised in profit or loss;
- delete the proposed requirement that an entity disclose an analysis of total interest expense between profit or loss and OCI when the effects of changes in discount rates are presented in OCI;
- not require the disclosure of an analysis of total interest expense included in total profit or loss and OCI into an amount of interest accretion determined using a current discount rate and the effects of changes in discount rate in the period when an entity applies the CPBY approach;
- require an entity to disclose an explanation of the method used to calculate the insurance investment expense using a cost measurement basis; and
- require an entity that uses the simplified approach – i.e. when full retrospective application is impracticable for contracts whose objective is to present an insurance investment expense using a cost measurement basis in profit or loss – to measure the accumulated OCI balance at zero to:
 - 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.

To ensure consistency of disclosures between the forthcoming insurance contracts standard and IFRS 15, the staff recommended that the IASB require an entity to disclose any practical expedients used.

What did the IASB discuss?

One Board member agreed with the staff that requiring the presentation of separate line items would not be necessary, because IAS 1 sets general principles about presentation.

Another member was concerned that not requiring separate presentation may encourage too much aggregation by preparers on the face of the financial statements. In response, some Board members suggested that the basis for conclusions to the final standard should:

- remind stakeholders of the requirements of IAS 1; and
- emphasise that insurance companies need to provide an appropriate level of aggregation.

The IASB considered the overall disclosure requirements in light of feedback from stakeholders.

A few Board members were concerned that the staff’s recommendation that an entity disclose the amount of the CSM with and without the cumulative amount of the guarantee recognised in profit or loss could be confusing, and could require an entity to track two separate CSMs. One Board member suggested that the recommendation be revised to focus on the transparency of the adjustments. As a result, the staff revised the recommendation to require an entity that measures contracts using the variable fee approach, and that recognises changes in the guarantee in profit or loss, to disclose the amount of the guarantee recognised in profit or loss for the period.

What did the IASB decide?

The IASB agreed with the staff’s recommendations, including the clarification described above.

Addressing stakeholder feedback

What’s the issue?

Most users of financial statements have previously emphasised the importance of disclosures in the forthcoming insurance contracts standard. Consequently, the staff revisited the feedback received⁷ and users’ information needs in the context of disclosures proposed by the IASB in the ED and those decisions made throughout the redeliberations.

The staff identified the following areas of emphasis for users.

Areas of emphasis for users	Staff considerations
Reconciliation of changes in the balance sheet amounts and amounts recognised in the statement of profit or loss and OCI	Although the ED does require a reconciliation of the contract balances, it does not require information about changes in fulfilment cash flows that are offset in the CSM.
Disclosures at a granular level to provide more information about different businesses	The ED proposed that an entity consider the appropriate level of aggregation, and provided geographic area as an example.
Disclosure of: <ul style="list-style-type: none"> • assumptions used in the measurement; and • the sensitivity of the results to changes in those assumptions 	The IASB proposed these disclosures in the ED.
Disclosure of the pattern of recognition of the CSM in profit or loss	This information is not currently required in the forthcoming insurance contracts standard.
Disclosures that address the need for information provided by: <ul style="list-style-type: none"> • summarised margin presentation (changes in margins resulting from the liability measurement); and • activity measures such as volume information 	The IASB has proposed as part of the ED to require: <ul style="list-style-type: none"> • revenue to be presented in the statement of financial position; • information about new business; and • margin information to be disclosed.

7. See [Agenda Paper 2B](#) from the January 2014 IASB meeting.

Areas of emphasis for users	Staff considerations
Disclosures that include additional information when an entity measures amounts using the simplified retrospective approach at transition, because these amounts would not be fully comparable with those of entities that apply the forthcoming insurance contracts standard retrospectively	The ED requires information about the assumptions used in estimating amounts using a simplified approach in the ED. However, it does not require entities to disclose those amounts at transition and after transition.

The staff also noted that the information that is required to be disclosed within a reconciliation of the premiums received in the period to the insurance contract revenue recognised in the period would already be provided in the reconciliation of the insurance contract balance.

What did the staff recommend?

The staff recommended that the IASB add requirements to disclose:

- the changes in fulfilment cash flows that are accounted for as a change in the CSM, provided that the entity does not apply the variable fee approach;
- 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; and
- the amounts in the financial statements determined at transition using simplified approaches, at the date of transition and in subsequent periods.

The staff also recommended deleting the proposed requirements that an entity reconcile revenue recognised in profit or loss in the period to premiums received in the period.

What did the IASB discuss?

One Board member believed that the proposed requirement to reconcile revenue recognised in profit or loss in the period to premiums received in the period would be useful to users of financial statements. The staff noted that disclosures of premiums received would be required.

Two Board members suggested that the disclosure requirements presented in the forthcoming insurance contracts standard be written in a style that reflects the objectives and purposes of the disclosures, rather than appearing to be a checklist.

What did the IASB decide?

The IASB agreed with the staff recommendation.

KPMG insight

The Board has made significant progress this month in reassessing the ED's disclosure requirements, considering them in the context of the Board's previous decisions and what users of financial statements view as relevant. The Board's removal of the requirement to disclose a reconciliation between insurance contract revenue and premiums received would ease the burden for preparers and allow users to focus on more relevant information.

However, the removal of the proposed requirement for an entity to disclose an analysis of total interest expense between profit or loss and OCI when the effects of changes in discount rates are presented in OCI may not significantly reduce the burden, because preparers would still need this information for their presentation of the statement of profit or loss and OCI.

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	<ul style="list-style-type: none"> • 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. • 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. • For non-participating contracts, the locked-in rate at inception of the contract would be used for: <ul style="list-style-type: none"> – accreting interest on the CSM; and – calculating the change in the present value of expected cash flows that adjust the CSM. • An entity would disclose: <ul style="list-style-type: none"> – 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: <ul style="list-style-type: none"> • on a quantitative basis using the appropriate time bands; or • by using qualitative information. 	<p>Yes</p> <p>Yes</p> <p>No</p> <p>Yes</p>
Presenting the effects of changes in the discount rate and other market variables in OCI	<ul style="list-style-type: none"> • An entity could choose as its accounting policy either: <ul style="list-style-type: none"> – 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. • 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. • 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. • 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. 	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>

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)	<ul style="list-style-type: none"> 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
	<ul style="list-style-type: none"> If an entity chooses to present the effects of changes in discount rates and other market variables in OCI, then it would recognise: <ul style="list-style-type: none"> <i>in profit or loss</i>: the interest expense determined using the discount rates that applied at the date on which the contract was initially recognised; and <i>in OCI</i>: the difference between the carrying amount of the insurance contract measured using the discount rates that applied at the reporting date and the amount of the insurance contract measured using the discount rates that applied at the date on which the contract was initially recognised. 	Yes
	<ul style="list-style-type: none"> If an entity chooses to present the effects of changes in discount rates and other market variables in OCI, then: <ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> 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
	<ul style="list-style-type: none"> For all portfolios of insurance contracts, an entity would disclose an analysis of total interest expense included in total comprehensive income disaggregated at a minimum into: <ul style="list-style-type: none"> 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
	<ul style="list-style-type: none"> 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

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Insurance contract revenue	<ul style="list-style-type: none"> 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
	<ul style="list-style-type: none"> An entity would present insurance contract revenue in profit or loss, as proposed in paragraphs 56–59 and B88–B91 of the ED. 	No
	<ul style="list-style-type: none"> An entity would disclose the following: <ul style="list-style-type: none"> 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
	<ul style="list-style-type: none"> 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
	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> For direct participating contracts – i.e. those that meet the following criteria – the CSM would be unlocked for changes in the estimate of the variable fee for service that the entity expects to earn: <ul style="list-style-type: none"> 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
Recognising the CSM in profit or loss	<ul style="list-style-type: none"> An entity would recognise the CSM in profit or loss on the basis of the passage of time. 	Yes

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Accounting mismatches arising from hedging activities for direct participating contracts	<ul style="list-style-type: none"> • If an entity uses the variable fee approach to measure insurance contracts, and uses a derivative measured at FVTPL to mitigate the financial market risk from a guarantee embedded in the insurance contract, then it would be permitted to recognise in profit or loss the changes in the value of the guarantee embedded in an insurance contract, determined using fulfilment cash flows, but only if the following criteria are met. <ul style="list-style-type: none"> – 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. • An entity would be required to: <ul style="list-style-type: none"> – 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. • An entity would disclose changes in the amount of the guarantee recognised in profit or loss for the period. 	<p>No</p> <p>No</p> <p>Yes</p>
Disaggregating changes arising from market variables – Direct participating contracts with no economic mismatches	<ul style="list-style-type: none"> • For contracts for which there is no economic mismatch between the insurance contract and the underlying items, the objective of disaggregating changes would be modified to present the insurance investment expense that eliminates accounting mismatches in profit or loss between: <ul style="list-style-type: none"> – 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. • 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. • Economic mismatches do not exist when: <ul style="list-style-type: none"> – 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. 	<p>Yes</p> <p>Yes</p> <p>Yes</p>

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 (continued)	<ul style="list-style-type: none"> • If an entity is required to change to or from the CPBY approach, then it would: <ul style="list-style-type: none"> – 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: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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
Transition		
Transition	<ul style="list-style-type: none"> • An entity would apply the forthcoming insurance contracts standard retrospectively in accordance with IAS 8, unless this is impracticable. • 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. 	No Yes

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Transition (continued)	<ul style="list-style-type: none"> • For circumstances in which full retrospective application is impracticable, the approach for determining insurance investment expense (and accumulated OCI) for contracts in which changes in market variables affect the amount of cash flows would be simplified as follows ('simplified approach'). <ul style="list-style-type: none"> – 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. • If the simplified retrospective approach is impracticable, then an entity would apply a fair value approach. The entity would determine the: <ul style="list-style-type: none"> – 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. • 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: <ul style="list-style-type: none"> – simplified retrospective approach; and – fair value approach. 	<p>Yes</p> <p>Yes</p> <p>Yes</p>
Transition – Classification and measurement of financial assets	<ul style="list-style-type: none"> • 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. • 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. 	<p>Yes</p> <p>Yes</p>

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Transition – Classification and measurement of financial assets (continued)	<ul style="list-style-type: none"> • 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. • The entity would disclose its policy for designating financial assets to which the transition relief is applied. • For any changes in classification and measurement of financial assets as a result of applying the transition provisions in the forthcoming insurance contracts standard, an entity would be required to disclose, by class of financial assets: <ul style="list-style-type: none"> – 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: <ul style="list-style-type: none"> • 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. 	<p>Yes</p> <p>Yes</p> <p>Yes</p>
Transition – Restatement of comparative information	<ul style="list-style-type: none"> • On initial application of the forthcoming insurance contracts standard: <ul style="list-style-type: none"> – an entity would be required to restate comparative information about insurance contracts; and – 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. 	<p>No</p> <p>Yes</p>
Non-targeted issues		
Recognising the CSM in profit or loss	<ul style="list-style-type: none"> • 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. • For non-participating contracts, the service represented by the CSM would be insurance coverage that: <ul style="list-style-type: none"> – is provided on the basis of the passage of time; and – reflects the expected number of contracts in force. 	<p>No</p> <p>Yes</p>

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Fixed-fee service contracts	<ul style="list-style-type: none"> 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
Significant insurance risk	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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. In determining those discount rates, an entity would use judgement to: <ul style="list-style-type: none"> 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. 	No Yes
Asymmetrical treatment of gains from reinsurance contracts	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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. 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”. 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. 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. 	No ⁸ Yes Yes Yes

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

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Presentation of line items	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> An entity would be required to disclose any practical expedients used. 	Yes
Differing effective dates of IFRS 9 and the forthcoming insurance contracts standard		
Proposed interim amendment to existing IFRS 4 – Overlay approach	<ul style="list-style-type: none"> IFRS 4 would be amended. For eligible assets that relate to insurance activities, an entity would be permitted to remove from profit or loss, and recognise in OCI, the difference between: <ul style="list-style-type: none"> the amounts that would be recognised in profit or loss under IFRS 9; and the amounts recognised in profit or loss under IAS 39. The adjustments could be applied only if the entity: <ul style="list-style-type: none"> issues contracts that are accounted for under IFRS 4; and applies IFRS 9 in conjunction with IFRS 4. An entity would be prohibited from applying the overlay approach if it is a first-time adopter of IFRS. The effective date of the proposed requirements would be for annual reporting periods beginning on or after 1 January 2018. Early adoption would be permitted if an entity adopts IFRS 9 early. There would be no expiry date for the overlay approach. 	<p>N/A</p> <p>N/A</p> <p>N/A</p> <p>N/A</p> <p>N/A</p>
Overlay approach – Eligibility of financial assets	<ul style="list-style-type: none"> An entity would be permitted to make an overlay adjustment in respect of financial assets that meet both of the following criteria: <ul style="list-style-type: none"> the entity designates them as relating to contracts that are in the scope of IFRS 4; and they are classified as at FVTPL under IFRS 9 and would not have been classified as at FVTPL in their entirety under IAS 39. An entity may change the above designation only if there is a change in the relationship between the financial assets and contracts that are in the scope of IFRS 4. 	<p>N/A</p> <p>N/A</p>

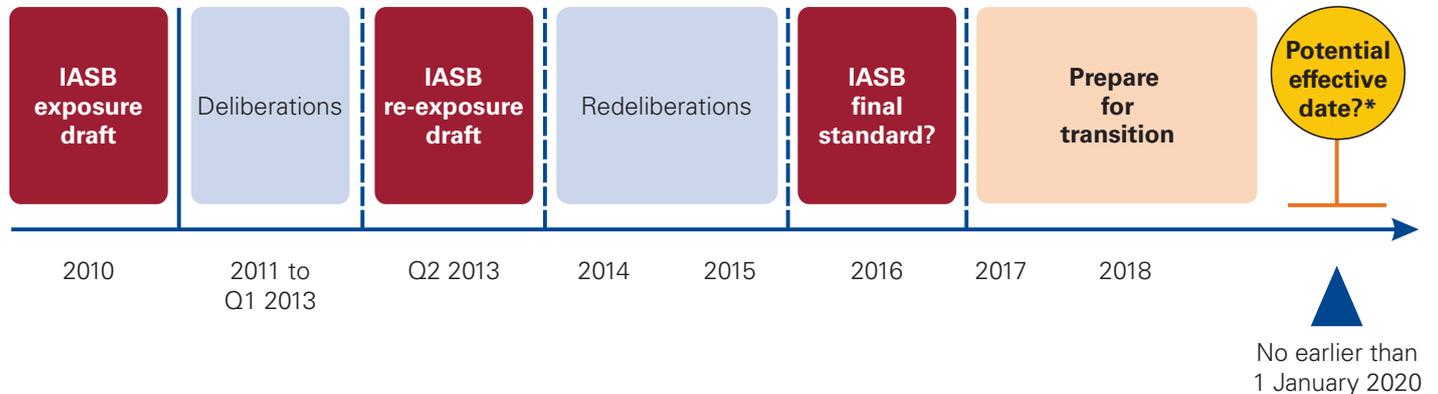
What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Overlay approach – Transition: Starting to apply the approach	<ul style="list-style-type: none"> An entity would be permitted to start applying the overlay approach only when it first applies IFRS 9 – including if it chooses to apply IFRS 9 early. An entity that has started applying IFRS 9 without applying the overlay approach would not be allowed to subsequently start applying it. 	N/A
	<ul style="list-style-type: none"> An entity would apply the overlay approach retrospectively to eligible financial assets on transition to IFRS 9. It would recognise, as an adjustment to the opening balance of OCI, an amount equal to the difference between: <ul style="list-style-type: none"> the fair value of eligible financial assets; and their amortised cost, or cost carrying amount under IAS 39, immediately before transition to IFRS 9. 	N/A
	<ul style="list-style-type: none"> An entity would restate comparative information to reflect the overlay approach only if it also restates that comparative information under IFRS 9. 	N/A
Overlay approach – Transition: Stopping applying the approach	<ul style="list-style-type: none"> An entity would be required to stop applying the overlay approach when it applies the forthcoming insurance contracts standard, and would be permitted to stop in any earlier reporting period. 	N/A
	<ul style="list-style-type: none"> When an entity stops applying the overlay approach, it would reclassify any balance of the prior periods' overlay adjustments accumulated in OCI to retained earnings at the later of the beginning of the earliest reporting period presented or the beginning of the reporting period when the overlay approach was first applied. 	N/A
Overlay approach – Redesignating financial assets	<ul style="list-style-type: none"> An entity would be permitted to apply the overlay approach prospectively to a financial asset at the date the financial asset first meets the eligibility criteria. 	N/A
	<ul style="list-style-type: none"> An entity would be required to stop applying the overlay approach to a financial asset when the financial asset no longer meets the eligibility criteria. Any accumulated OCI balance relating to the overlay adjustment on that asset would be immediately reclassified to profit or loss. 	N/A
Overlay approach – Presentation and disclosures	<ul style="list-style-type: none"> An entity that applies the overlay approach would present a single line item for the amount of the overlay adjustment in profit or loss, or OCI, or both. An entity may disaggregate the amount of the overlay adjustment in profit or loss. 	N/A
	<ul style="list-style-type: none"> An entity that applies the overlay approach would disclose in each reporting period: <ul style="list-style-type: none"> the fact that it has made an overlay adjustment, and the financial assets to which the overlay adjustment relates; its policy for determining the financial assets for which an overlay adjustment is made; an explanation of the total amount of overlay adjustments made in each period, in a way that enables users of the financial statements to understand how it is derived; and the effect of the overlay adjustment on line items in profit or loss, to the extent that they are not separately identified on the face of the profit or loss account. 	N/A

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?						
Overlay approach – Presentation and disclosures (continued)	<ul style="list-style-type: none"> For financial asset transfers and redesignations of financial assets, an entity would also make the following disclosures. <table border="1" data-bbox="325 517 1230 853"> <thead> <tr> <th data-bbox="325 517 778 595">For financial assets that are <i>newly in the scope of the overlay approach</i></th> <th data-bbox="778 517 1230 595">For financial assets <i>removed from the scope of the overlay approach</i></th> </tr> </thead> <tbody> <tr> <td data-bbox="325 595 778 712">The amount of overlay adjustment that <i>has</i> arisen in profit or loss and OCI</td> <td data-bbox="778 595 1230 712">The amount of overlay adjustment that <i>would have</i> arisen in profit or loss and OCI</td> </tr> <tr> <td data-bbox="325 712 778 853"></td> <td data-bbox="778 712 1230 853">The amount of overlay adjustment that is due to the reclassification of amounts in accumulated OCI to profit or loss</td> </tr> </tbody> </table>	For financial assets that are <i>newly in the scope of the overlay approach</i>	For financial assets <i>removed from the scope of the overlay approach</i>	The amount of overlay adjustment that <i>has</i> arisen in profit or loss and OCI	The amount of overlay adjustment that <i>would have</i> arisen in profit or loss and OCI		The amount of overlay adjustment that is due to the reclassification of amounts in accumulated OCI to profit or loss	N/A
For financial assets that are <i>newly in the scope of the overlay approach</i>	For financial assets <i>removed from the scope of the overlay approach</i>							
The amount of overlay adjustment that <i>has</i> arisen in profit or loss and OCI	The amount of overlay adjustment that <i>would have</i> arisen in profit or loss and OCI							
	The amount of overlay adjustment that is due to the reclassification of amounts in accumulated OCI to profit or loss							
Proposed interim amendment to existing IFRS 4 – Deferral approach	<ul style="list-style-type: none"> IFRS 4 would be amended to defer the effective date of IFRS 9 for certain entities that issue contracts in the scope of IFRS 4. An entity that has applied IFRS 9 would not be permitted to stop applying IFRS 9 and revert to applying IAS 39. An entity would be prohibited from applying the deferral approach if it is a first-time adopter of IFRS. The effective date of the proposed requirements would be for annual reporting periods beginning on or after 1 January 2018. Early adoption would be permitted if an entity adopts IFRS 9 early. The expiry date of the deferral approach would be no later than reporting periods beginning on or after 1 January 2021, after which an entity could choose to apply the overlay approach if the forthcoming insurance contracts standard is not yet effective. An entity would be permitted, rather than required, to apply the deferral approach. 	<p>N/A</p> <p>N/A</p> <p>N/A</p> <p>N/A</p> <p>N/A</p> <p>N/A</p>						
Deferral approach – Eligibility	<ul style="list-style-type: none"> An entity that issues contracts in the scope of IFRS 4 would be permitted to defer the effective date of IFRS 9 if that activity is predominant for the reporting entity. It would apply to all financial assets held by the reporting entity. An entity would be required to initially assess whether its insurance activities are predominant, based on: <ul style="list-style-type: none"> the level of gross liabilities arising from contracts that are in the scope of IFRS 4; relative to the entity’s total liabilities at the date when the entity would otherwise be required to initially apply IFRS 9. There would be no quantitative threshold for the assessment of predominance of insurance activities; however, the basis for conclusions would include an example specifying the levels at which an entity’s insurance activities would not be considered predominant for the purposes of this assessment. 	<p>N/A</p> <p>N/A</p> <p>N/A</p>						

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Deferral approach – Eligibility (continued)	<ul style="list-style-type: none"> • An entity would be required to reassess whether insurance activities are predominant for it at subsequent annual reporting dates if there is a demonstrable change in the entity’s corporate structure that could result in a change in its predominant activities. • If, as a result of that reassessment, an entity concludes that insurance activities are no longer predominant for it, then it would be required to: <ul style="list-style-type: none"> – apply IFRS 9 from the beginning of the next annual reporting period; and – disclose, in the reporting period in which the reassessment took place: <ul style="list-style-type: none"> • the fact that it is no longer eligible for deferral; • the reason why it is no longer eligible; and • the date on which the change in corporate structure took place that resulted in the entity no longer meeting the predominance condition. 	N/A N/A
Deferral approach – Disclosures	<ul style="list-style-type: none"> • An entity applying the deferral approach would disclose: <ul style="list-style-type: none"> – the fact that it has chosen to delay application of IFRS 9; – an explanation of how it concluded that it is eligible for the deferral; and – information about the characteristics and credit quality of financial assets. 	N/A
Deferral approach – Transition	<ul style="list-style-type: none"> • When an entity applies the deferral approach, it would use the applicable transition provisions in IFRS 9 to the extent needed to provide the disclosures required under the deferral approach. • An entity that applies the deferral approach would be permitted to stop applying it and start applying IFRS 9 at the beginning of any annual reporting period before the forthcoming insurance contracts standard is applied. It would be required to do so from the beginning of the annual reporting period in which the forthcoming insurance contracts standard is initially applied. • When an entity starts applying IFRS 9, it would follow the transition provisions under IFRS 9, and would stop providing the disclosures required under the deferral approach. 	N/A N/A N/A

PROJECT MILESTONES AND TIMELINE FOR COMPLETION

The IASB re-exposed its insurance contracts proposals and issued ED/2013/7 *Insurance Contracts* in June 2013. A final standard is expected before the end of 2016.



* 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 before the end of 2016. The mandatory effective date will be considered after the redeliberations on the model for participating contracts have been completed.

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

KPMG publications	
1	IFRS Newsletter: Insurance (issued after IASB deliberations)
2	New on the Horizon: Insurance contracts (July 2013)
3	Challenges posed to insurers by IFRS 9's classification and measurement requirements
4	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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