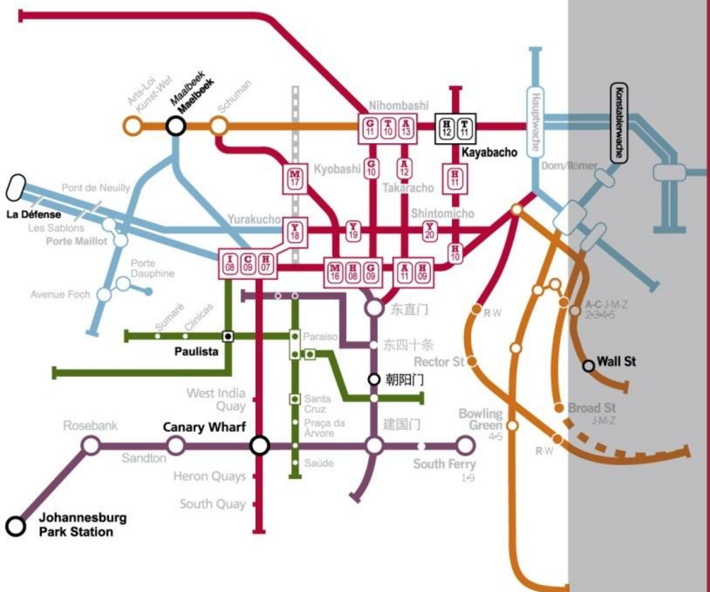
International Financial Reporting Standards



2013 ED *Insurance Contracts* Summary of user outreach

Meetings conducted between June and December 2013

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

International Financial Reporting Standards

Background to the project

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation

Background to project: No comprehensive accounting standard today

Current IFRS 4 *Insurance Contracts* is an interim Standard

- Permits entities to apply a wide variety of accounting models
- Requires disclosures to enhance comparability and to understand reported amounts

2007 Discussion Paper and 2010 Exposure Draft

- Proposed current, market-consistent measurement
- Overall stakeholder agreement with the principles - some additional concerns remained

2013 Revised Exposure Draft (ED) as a next step toward final Standard

- Builds on previous consultations, significantly changes five items
- Revised ED seeks feedback specifically on those five targeted topics, and focuses on operational and reporting complexity

Final requirements- effective 2018?

- In 2014 the IASB will deliberate the feedback received on Revised ED
- Final Standard expected in 2015
- Effective date – at least 3 years after publishing Standard

Project Proposal: Current, market-consistent measurement of insurance contracts

Contractual service margin
Expected contract profit

Fulfilment cash flows

Future cash flows: Expected cash flows from premiums and claims and benefits

Risk adjustment: An assessment of the uncertainty about the amount of future cash flows

Discounting: An adjustment that converts future cash flows into current amounts

Measurement of insurance contract has two main components*:

Contractual service margin

represents expected contract profit to be recognised when service is provided

Fulfilment cash flows

represent a current, updated estimate of amounts the company expects to collect from premiums and pay out for claims, benefits and expenses, adjusted for risk and time value of money

**Changes in the components from opening to closing balance are explained in the notes.*

Five targeted topics - proposals the IASB sought feedback on

Measurement proposals

Unlocking the margin

Changes in estimates relating to future service will change future (rather than current) profit

Mirroring exception

Measure and present part of participating contracts as related assets (to the extent risk is passed to policyholder)

Presentation proposals

Revenue

Align presentation of revenue and expense for all insurance contracts to other business

OCI

Interest expense in profit or loss is cost-based, difference to current value-based is presented in OCI

Approach to transition

Apply new requirements as if always applied.

When not reasonably possible, simplifications are provided.

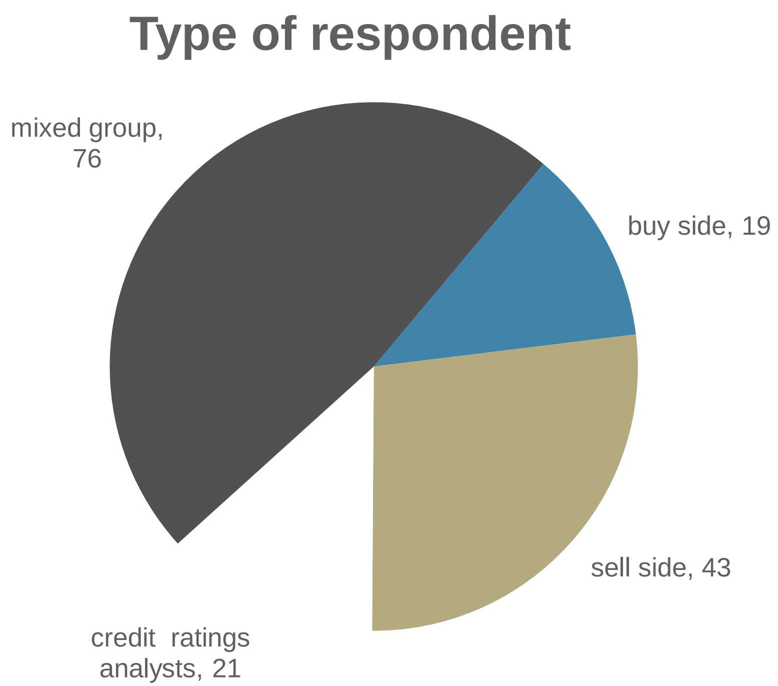
International Financial Reporting Standards

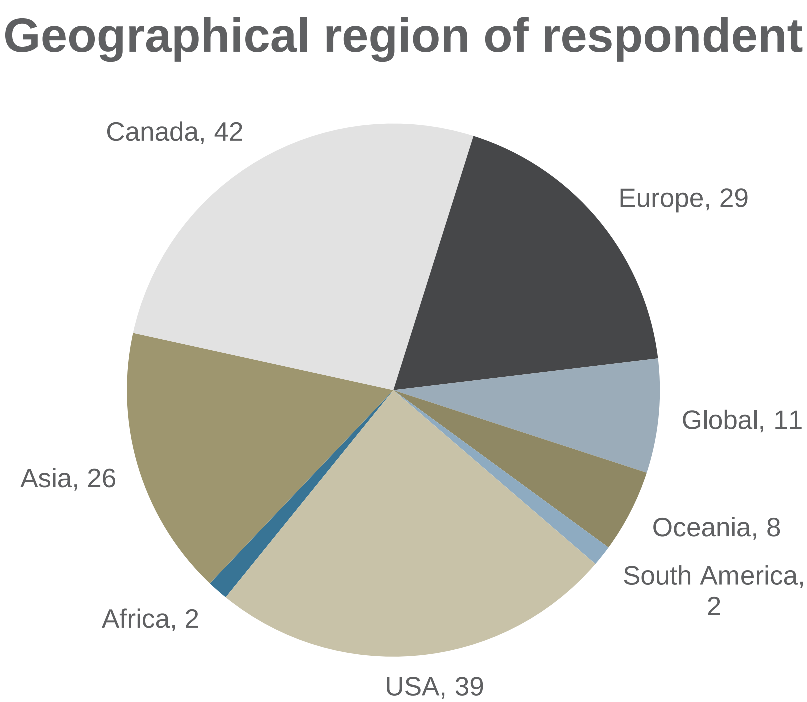
Summary of feedback received from investors and analysts

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation

Who we heard from

- 44 meetings with 159 investors/analysts (statistics below)
- 5 comment letters





IFRS®

Views on the overall model

Need for change	Most agree (especially those that follow global companies or try to compare different businesses). They emphasise:	**Lack of comparability** between insurance and other entities today
		Currently it is **difficult to understand** how an insurance entity makes money
		Need **more updated assumptions** in the measurement of insurance contracts
	Some believe that current accounting is good enough. Some are not sure that proposed changes are an improvement to current accounting. They include:	Users who focus mainly on entities in one country, especially from Australia and the United States
		Users who follow mainly non-life business

Views on the overall model continued

Current, market-consistent information		
	Most support the proposed model:	It provides **more timely information** about forthcoming risks
		Information is **more independent** from management's assessment
		Widespread support for disclosures and separate information about investment and underwriting activity
	Some expressed concerns:	It might not faithfully represent the long-term insurance business model
		Extent of use of subjective estimates and assumptions - emphasising need for disclosures
		Separate measurement from the underlying assets could lead to accounting mismatches

Overall views on the five targeted topics

Measurement

Unlocking the margin: changes in some estimates change future profits

Views: Most agree with proposal, a few concerned about transparency

Mirroring exception for part of participating contracts

Views: Most agree with principle but some concerned about treatment of options and guarantees

Presentation

Similar presentation of revenue for all insurance entities

Views: Some agree with principle but not yet sure how to use the information

Use of OCI for part of investment activity

Views: Most agree with proposal but are concerned about accounting mismatches

First time application

Transition: Apply new requirements as if they had always applied

Views: All agree with proposal, although some concerned about alignment of effective date with IFRS 9 *Financial Instruments*

IFRS®

Detailed views on unlocking the margin: When to report profits if expectations change?

Proposal: change in estimates related to future service will cause change in **future** period (rather than **current** period) profits

Most agree with proposal because:

- provides more intuitive information about profits and losses - more similar to revenue
- less volatile and easier to see trend data - changes in profits appear gradually
- less incentives to manipulate numbers - changes in profits appear over time

A few disagree with proposal because:

- Recognising all changes in assumptions immediately in profit or loss would provide quicker and more transparent information about those changes

Additional thoughts:

- Some propose that different changes should cause changes in future (rather than current) profits
- A few proposed additional disclosure that explains the expected pattern of profits

Detailed views on mirroring: Should we measure some contracts differently?

Proposal: part of participating contracts would be measured (and presented) as related assets to avoid accounting mismatch where economic mismatch could not occur

Some agree with proposal because:

- when there is no economic mismatch possible, it would avoid showing an accounting mismatch that could obscure the information provided about the economics of the contract

Some disagree with proposal because:

- it would cause a measurement exception for some contracts and would decrease comparability with other insurance contracts

Some are concerned about treatment of options and guarantees (O&G)

- Many agree that O&G should be measured using current-market consistent valuation.
- Some thought that changes in value of O&G should be presented as other changes in the insurance liability. A few noted that such presentation could cause an accounting mismatch when the risk of O&G is hedged.
- Some are concerned that presenting O&G in profit or loss would cause volatility.

Detailed views on presentation of revenue: Should it be similar for all insurance contracts?

Proposal: revenue and expenses should be presented in a similar way for all insurance contracts. Revenue is recognised when service is provided and excludes deposits.

Some agree with proposal because:

- it will allow for comparability between insurance contracts and between other businesses
- simple presentation could appeal to non-specialists and reduce perception of complexity

All agree that revenue should not include deposits.

Some disagree with proposal because:

- it would change current practise for many life business and often make the top number smaller
- they believe that comparability is not needed and differences reflect different characteristics

Overall concern about understandability and usefulness

- Many note that there is a need to educate people on what the proposed revenue number means and how it could be used
- Some are concerned that proposal would result in the top line being too subjective and volatile
- Some are concerned whether the proposal meets user needs

Detailed views on use of OCI: Should report part of investment activity separately?

Proposal: presentation of cost type information in profit or loss, and the difference between cost and current value in other comprehensive income (OCI)

Most agree with proposal because:

- it provides more information than presenting all changes in profit or loss statement because it provides both cost and current value
- some believe it's a good intermediate step towards current value approach

Some disagree with proposal because:

- they currently receive current value information and they believe OCI is an unnecessary complication that could obscure important information

Many are concerned about an accounting mismatch

- Accounting mismatch would arise when related assets are not measured and presented the same way as insurance liabilities or when an entity hedges risk by asset-liability management.
- Some propose that an accounting mismatch should be presented in OCI, some suggest an option rather than mandating presentation in OCI.

Detailed views on transition: how to apply proposals for the first time?

Proposal: apply new requirements as if they always applied.
If it's not reasonably possible, some simplifications are provided.

All agree with proposal because:

- It will allow comparability between contracts written before and after transition
- It will provide investors and analysts with trend information

Related concerns:

- Aligning effective date of insurance proposals and changes to IFRS 9

For more information…

Full summary of the user outreach is available on the website:

- go.ifrs.org/insurance_contracts

Stay up to date

- www.ifrs.org/Investor-resources
- Sign up for our email alert

Ask questions or share your views

- Email us: insurancecontracts@ifrs.org
- Email investor liaison: bdavidson@ifrs.org

Resources on the website

- IASB Update informs about latest tentative decisions
- Project podcasts and webcasts
- Snapshot of proposals
- High level summary of the current status of the project

… and a lot more!