

IFRS 4 Insurance Contracts (November 2005)

Discretionary participation features in insurance contracts or financial liabilities

The IFRIC received a request for interpretative guidance on:

- the definition of a discretionary participation feature (DPF) in IFRS 4 Insurance Contracts
- the interaction of the liability adequacy test (paragraphs 15-19 of IFRS 4) with the minimum measurement of the guaranteed element of a financial liability containing a DPF (paragraph 35(b) of IFRS 4)

The IFRIC was informed of concerns that key disclosures regarding these features are required only in respect of items regarded as DPF. Consequently, a narrow interpretation of DPF would fail to ensure clear and comprehensive disclosure about contracts that include these features. The IFRIC noted that disclosure is particularly important in this area, given the potential for a wide range of treatments until the IASB completes phase II of the project on insurance contracts. The IFRIC noted that IFRS 4 requires an insurer to disclose information that identifies and explains the amounts in its financial statements arising from insurance contracts (paragraph 36) and information that helps users to understand the amount, timing and uncertainty of future cash flows from insurance contracts (paragraph 38). The IFRIC also noted that the Guidance on Implementing IFRS 4 was designed to help entities to develop disclosures about insurance contracts that contain a DPF. The IFRIC decided not to add this topic to the agenda, because it involves some of the most difficult questions that the IASB will need to resolve in phase II of its project on insurance contracts. The fact that, in developing IFRS 4, the IASB chose to defer such questions to phase II limits the scope for reducing diversity through an Interpretation.