STAFF PAPER

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REG IASB Meeting

Project	**Insurance contracts**
Paper topic	Disclosures: Overview and proposed drafting

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Introduction

1. The IASB's exposure draft proposed objectives-based disclosure requirements to help users of financial statements understand the amount, timing and uncertainty of cash flows arising from insurance contracts. It proposed a disclosure objective that would require an insurer to explain:
   (a) The amounts recognised in the financial statements arising from insurance contracts
   (b) The nature and extent of risks arising from those contracts.
2. This approach is intended to provide insurers with the flexibility to disclose information about their business in an appropriate way, while ensuring that key information is provided.
3. This paper:
   (a) reminds the IASB of its previous decisions
   (b) identifies proposals in the ED that the staff propose to carry forward with little or no modification.
   (c) sets out the proposed disclosure package, incorporating the decisions the IASB has previously taken and the staff recommendations in agenda paper 16G

Disclosures: Staff Analysis. That paper discusses the remaining disclosure issues required to complete the disclosure decisions, including:

(i) Disclosures related to topics that have changed since the ED (residual margin, participating contracts and OCI).

(ii) Other suggested disclosures and the staff's proposed response.

(d) Reports on the FASB's discussions about disclosures.

4. We plan to address disclosures relating to premiums, claims and expenses and disclosures for interim financial reports at a future meeting.

5. Because much of the feedback on the ED indicated that the package of proposed disclosures was excessive, the staff will ask the IASB to confirm whether it agrees to the disclosures as a package. The staff does not propose to ask the IASB individual questions on the disclosures proposed in agenda paper 16G unless a Board member requests to do so. Instead, the staff will ask the board to confirm the package of disclosures in this paper, which incorporates those recommendations.

Question for IASB
Do you agree with the overall disclosure package as set out in this paper?

Previous decisions

6. At their meeting in the week commencing 21 March 2011, the boards agreed to align the wording of the disclosure objectives of active projects (revenue recognition, leases and insurance contracts). The boards decided that an entity would be required to present in tabular format any roll forward retained by or added to disclosure requirements

7. At its joint September 2011 meeting with the FASB, the IASB confirmed the disclosure proposed in paragraphs 90-97 of the ED with limited changes, as follows:[1]

(a) to delete the requirement that an insurer shall not aggregate information relating to different reportable segments (ie paragraph 83 of the ED) to avoid a

[1] In November 2011, the IASB staff posted to IASB's website a summary of those decisions, including a description of how those decisions compared to the ED and the response in the comment letters, available at http://www.ifrs.org/Current-Projects/IASB-Projects/Insurance-Contracts/Documents/AP7Ddisclosures.pdf. The document also included examples illustrating some of the main disclosure decisions and possible drafting to implement the IASB's decisions.

conflict with the principle for the aggregation level of disclosures. Thus the level of aggregation could vary for different types of qualitative and quantitative disclosures. However, the standard would add to the examples listed in paragraph 84 of the ED by stating that one appropriate aggregation level might be reportable segments.

(b) to require the insurer to disclose separately the effect of each change in inputs and methods, together with an explanation of the reason for the change, including the type of the contracts affected.

(c) for contracts in which the cash flows do not depend on the performance of specified assets (ie non-participating contracts), to require disclosure of the yield curve (or range of yield curves) used.

(d) to require the maturity analysis of net cash outflows resulting from recognised insurance liabilities proposed in paragraph 95(a) of the ED to be based on expected maturities and remove the option to base maturity analysis on remaining contractual maturities. Furthermore, within the context of time bands, to require the insurer to disclose, at a minimum, the expected maturities on an annual basis for the first five years and in aggregate for maturities beyond five years.

(e) to delete the proposed requirement in paragraph 90(d) of the ED to disclose a measurement uncertainty analysis and to align (in due course) that disclosure with the disclosure for fair value measurements in IFRS 13 *Fair Value Measurement*, as appropriate.

8. At the 20 October 2011 joint meeting with the FASB, the IASB tentatively decided that an insurer should disaggregate the following components, either in the statement of financial position or in the notes, in a way that reconciles to the amounts included in the statement of financial position:

(a) Expected future cash flows

(b) Risk adjustment,

(c) Residual margin, and

(d) The effect of discounting.

9. At the March 2012 joint meeting, the boards tentatively decided that insurer should disclose:

   (a) the portion of the insurance contract liability that represents the aggregated portions of premiums received (and claims/benefits paid) that were excluded from the statement of comprehensive income; and

   (b) the amounts payable on demand.

10. The appendix sets out all possible drafting for all the IASB's tentative decisions and the recommendations in the papers for this meeting.

11. Because much of the feedback on the ED indicated that the package of proposed disclosures was excessive, the staff will ask the IASB to confirm whether it agrees to the disclosures as a package. The staff does not propose to ask the IASB individual questions on the disclosures proposed in agenda paper 16G unless a Board member requests to do so. Instead, the staff will ask the board to confirm the package of disclosures in this paper, which incorporates those recommendations.

FASB discussion on disclosures

12. On 1 August 2012, the FASB discussed at an education session a proposed disclosure package, based on the disclosures in the ED and similar to the disclosures proposed in this package. FASB members were concerned about the volume of disclosures recommended by the staff and requested the staff to perform further outreach with both preparers and users of financial statements on the usefulness and operational implications of the proposed package, in comparison to existing US GAAP disclosures. The FASB intends to complete this outreach before voting on the disclosures to be included in their exposure draft.

Proposed requirement	Staff comment/IASB decisions
Disclosure	
79 The objective of the disclosure requirements is to enable ~~To help~~ users of financial statements to understand the nature, amount, timing and uncertainty of future cash flows arising from insurance contracts. To achieve that objective, an insurer shall disclose qualitative and quantitative information about: **(a) the amounts recognised in its financial statements arising from insurance contracts (see paragraphs 85–89~~90~~)** **(b) the significant judgements, and changes in the judgements, made in applying the [draft] IFRS to those contracts (see paragraph 90); and** **(~~b~~c) the nature and extent of risks arising from insurance contracts (see paragraphs 91–97).**	At their meeting in the week commencing 21 March 2011, the boards agreed to align the wording of the disclosure objectives of active projects (revenue recognition, leases and insurance contracts).
80 If the disclosures required by this [draft] IFRS and other IFRSs do not meet that objective in a particular situation, an insurer shall disclose whatever additional information is necessary to meet that objective.	We propose to carry forward this disclosure requirement from the ED as it was not contentious.
81 An insurer shall consider the level of detail necessary to satisfy the disclosure ~~requirements~~ objective and how much emphasis to place on each of the various requirements. An insurer shall aggregate or disaggregate information so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics.	To conform with equivalent paragraph in other standards.
81A~~84~~ Examples of aggregation levels that might be appropriate are:	Moved from lower down. At their meeting in the week commencing on 19 September

Proposed requirement	Staff comment/IASB decisions
(a) type of contract (eg major product lines). (b) geography (eg country or region). (c) reportable segment, as defined in IFRS 8 *Operating Segments*.	2011, the boards tentatively decided to delete the requirement that an insurer shall not aggregate information relating to different reportable segments to avoid a conflict with the principle for the aggregation level of disclosures. Thus the level of aggregation could vary for different types of qualitative and quantitative disclosures. However, the standard would add to the examples listed in paragraph 84 of the ED by stating that one appropriate aggregation level might be reportable segments.
~~82 An insurer shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.~~	Moved to section on information about insurance contracts
~~83 The disclosures required in this [draft] IFRS shall not aggregate information relating to different reportable segments, as defined in IFRS 8 *Operating Segments*.~~	See comment at 81A
84A Amounts disclosed are for each period for which a statement of comprehensive income is presented and as of each date for which a statement of financial position is presented, as applicable, unless otherwise stated.	Added to be consistent with the proposals in revenue recognition.
84B An insurer need not disclose information in accordance with this [draft] IFRS if it has provided the information in accordance with another IFRS.	Added to be consistent with the proposals in revenue recognition.
Explanation of recognised amounts relating to insurance contracts	
85 An insurer shall: (a) disclose information about the amounts recognised in its	The requirement to disclose the methods and inputs used to develop the measurements has been moved down to provide a

Proposed requirement	Staff comment/IASB decisions
financial statements relating to insurance contracts in sufficient detail to help users of its financial statements evaluate the nature, timing, amount and uncertainty of future cash flows arising from insurance contracts.	lead in to a later section.
(b) provide sufficient information to permit reconciliation to the line items presented in the statements of comprehensive income and financial position.	The requirement to provide sufficient information to permit reconciliation to the line items presented in the statement of financial position has been moved from paragraph 82. The requirement to provide disclosure that reconciles to the line items presented in the SCI is recommendation (b) in agenda paper 16G
~~, including:~~ ~~(a) reconciliation from the opening to the closing aggregate contract balances (see paragraphs 86–89); and~~ ~~**(b)** the methods and inputs used to develop the measurements (see paragraph 90).~~	
86 To comply with that paragraph 85~~(a)~~, an insurer shall disclose a reconciliation, in a tabular format, from the opening to the closing balance of each of the following, if applicable:	At their meeting in the week commencing 21 March 2011, the boards tentatively decided that an entity would be required to present in tabular format any roll forward retained by or added to disclosure requirements
(a) the components of the aggregate of the carrying amounts of insurance contract liabilities and~~, separately,~~ insurance contract assets,	Portfolios of insurance contracts may move from an asset to a liability position over time. It may be more practical to add together the asset and liability positions on the statement of financial position and perform a single net reconciliation.
~~(b) risk adjustments included in (a).~~ ~~(c) residual margins included in (a).~~	See paragraphs 19-23 of agenda paper 16G. We plan to discuss reconciliations that would be consistent with the presentation model that the Board decides on at a future meeting.
(b~~d~~) the components of reinsurance assets arising from reinsurance	This applies the reconciliation recommended in paper 16G to

Proposed requirement	Staff comment/IASB decisions
contracts held by the insurer as cedant as follows: (i) the expected recovery relating to the unexpired portion of risk coverage (ii) the expected recovery related to incurred claims. (iii) the expected recovery relating to additional liabilities recognised for onerous insurance contracts before the coverage period begins	reinsurance assets.
(c) The components of the aggregate of the carrying amounts of insurance contract liabilities and insurance contract assets, and the components of the carrying amount of reinsurance assets analysed as: (i) the expected present value of fulfilment cash flows (ii) the risk adjustment (iii) the residual margin.	Recommendation (d) in paper 16G
(d) any additional liabilities for onerous insurance contracts recognised before the coverage period begins.	Recommendation (c) in agenda paper 16G
~~(e) risk adjustments included in (d).~~ ~~(f) residual margins included in (d).~~	
~~(g) impairment losses on reinsurance assets.~~	This would be shown as part of the reconciliation of the reinsurance assets in (b)
86A An insurer that applies paragraphs 55-60 to insurance contracts it issues, or a cedant that applies paragraphs 59B and 59C to reinsurance	

Proposed requirement	Staff comment/IASB decisions
contracts it holds, need not provide the reconciliation in paragraph 86(c) for the portion of the insurance contract relating to the liability for remaining coverage.	
87 For each reconciliation required by paragraph ~~86~~85, an insurer shall show, at a minimum, each of the following, if applicable:	
(a) the carrying amounts at the beginning and end of the period in a way that reconciles to the statement of financial position.	
(b) new contracts recognised during the period.	
(c) premiums received	
(d) payments, with separate disclosure of:	
(i) claims and benefits	
(ii) expenses	
(iv) ~~incremental acquisition~~ the direct costs of acquiring a portfolio of insurance contracts described in paragraph B61(f).	Reflects decisions about acquisition costs previously taken by the IASB
~~(e) other cash paid and, separately, other cash received.~~	Covered by the requirement to disclose 'any additional line items that may be needed to understand the change in the contract assets and contract liabilities'.
(f) income and expense recognised in the statement of comprehensive income, as described in paragraphs 87A and 87B, showing separately gains and losses arising on modification, commutation or derecognition of an insurance	Recommendation (a) in agenda paper 16G.

Proposed requirement	Staff comment/IASB decisions
contract.	
(g) amounts relating to contracts acquired from, or transferred to, other insurers in portfolio transfers or business combinations.	We propose to carry forward this disclosure requirement from the ED as it was not contentious.
(h) any additional line items that may be needed to understand the change in the contract assets and contract liabilities ~~net exchange differences arising on the translation of foreign currency amounts into the presentation currency~~.	Consistent with the approach taken in the disclosures for the revenue recognition ED, we have replaced the requirement to disclose ‘net exchange differences arising on translation of foreign currency amounts into the presentation currency’ with a generic requirement to disclose ‘any additional line items that may be needed to understand the change in the contract assets and contract liabilities’.
87A In the reconciliations required by paragraph 86(a) and (b), an insurer shall show income and expense, reconciled to the amounts disclosed to comply with [paragraphs on required line items in the statements of financial position and comprehensive income].	See paragraphs 19-23 of agenda paper 16G. We plan to discuss reconciliations that would be consistent with the presentation model that the Board decides on at a future meeting.
87B In the reconciliation required by paragraph 86(c), an insurer shall show income and expense, analysed as follows: (a) the change in risk adjustment; (b) the release of residual margin; (c) differences between actual cash flows and previous estimates of those cash flows (ie experience adjustments); (d) changes in estimates of cash flows; and (e) changes in discount rates	Recommendation (d) in paper 16G
87C~~73~~ ~~The~~ An insurer shall disclose changes in ~~estimates of~~ discount rates and the interest on insurance liabilities ~~shall be presented or disclosed~~ in a way	Moved from paragraph 73 in the presentation section. We propose to carry forward this requirement as it was not

Proposed requirement	Staff comment/IASB decisions
that highlights the~~ir~~ relationship between those amounts and ~~with~~ the investment return on the assets backing those liabilities.	contentious.
88 For short-duration contracts measured using the measurement described in paragraphs 54–60, an insurer shall disclose the reconciliation required by paragraph 86 separately for: (a) pre-claims liabilities. (b) additional liabilities for onerous insurance contracts. (c) claims liabilities.	We plan to consider whether separate information is needed for short duration contracts when the Board has concluded on the presentation approach for the building block approach.
~~89 For those contracts for which uncertainty about the amount and timing of claims payments is not typically resolved fully within one year, an insurer shall disclose the claims and expenses incurred during the period.~~	Recommendation (e) in agenda paper 16G
Significant judgements in the application of the [draft] IFRS	
90 An insurer shall disclose the judgements, and changes in the judgements, made in applying this [draft] IFRS that significantly affect the determination of the amount and timing of revenue from insurance contracts. At a minimum, ~~To comply with paragraph 85(b),~~ an insurer shall disclose: (a) for the measurements that have the most material effect on the recognised amounts arising from insurance contracts, the methods used and the processes for estimating the inputs to those methods. When practicable, the insurer shall also provide quantitative information about those inputs. (b) to the extent not covered in (a), the methods and inputs used to	To align with the equivalent paragraph in the revenue recognition ED, and to provide a lead in to this section.

Proposed requirement	**Staff comment/IASB decisions**
estimate:	
(i) the risk adjustment~~, including information about the confidence level to which the risk adjustment corresponds. If the insurer uses a conditional tail expectation technique or a cost of capital technique, it shall disclose the confidence level to which the risk adjustment estimated under those methods corresponds (eg that the risk adjustment was estimated at conditional tail expectation (Y) and corresponds to a confidence level of Z per cent)~~.	At their meeting in the week commencing on 19 September 2011, the IASB tentatively decide not to limit the range of available techniques and the related inputs to estimate the risk adjustment.
(ii) discount rates.	
(ii) ~~estimates of~~ policyholder dividends.	
(c) the effect of changes in the methods and inputs used to measure insurance contracts, showing separately the effect of each change that has a material effect on the financial statements, together with an explanation of the reason for the change, identifying the type of contracts affected.	At their meeting in the week commencing on 19 September 2011, the boards tentatively decided to require the insurer to disclose separately the effect of each change in inputs and methods, together with an explanation of the reason for the change, including the type of the contracts affected.
~~(d) a measurement uncertainty analysis of the inputs that have a material effect on the measurement. If changing one or more inputs used in the measurement to a different amount that could have reasonably been used in the circumstances would have resulted in a materially higher or lower measurement, the insurer shall disclose the effect of using those different amounts and how it calculated that effect. When preparing a measurement uncertainty analysis, an insurer shall not take into account inputs that are associated with remote scenarios. An insurer shall take into account the effect of correlation between inputs if such correlation is relevant when estimating the effect on the measurement of using those different~~	At their meeting in the week commencing on 19 September 2011, the IASB tentatively decided to delete the proposed requirement in paragraph 90(d) of the ED to disclose a measurement uncertainty analysis and to align that disclosure (in due course) with any similar disclosure for fair value measurements that might result from any future amendment to IFRS 13 *Fair Value Measurement*.

Proposed requirement	**Staff comment/IASB decisions**
~~amounts. For that purpose, materiality shall be judged with respect to profit or loss, and total assets or total liabilities.~~	
90A If the insurer uses a technique other than confidence level for determining the risk adjustment, the insurer shall translate the result of that technique into a confidence level-(eg that the risk adjustment was estimated using technique Y and corresponds to a confidence level of Z per cent).	At their meeting in the week commencing on 19 September 2011, the IASB tentatively decide not to limit the range of available *techniques* and the related inputs to estimate the risk adjustment to retain the confidence level equivalent disclosure that had been proposed in paragraph 90(b)(i) of the ED.
90B An insurer shall disclose the yield curve (or range of yield curves) used to discount cash flows that do not depend on the performance of specified assets	At their meeting in the week commencing on 19 September 2011, the boards tentatively decided for contracts in which the cash flows do not depend on the performance of specified assets (ie non-participating contracts), to require disclosure of the yield curve (or range of yield curves) used.

Nature and extent of risks arising from insurance contracts

91 An insurer shall disclose information about the nature and extent of risks arising from insurance contracts in sufficient detail to help users of financial statements evaluate the amount, timing and uncertainty of future cash flows arising from insurance contracts.

92 To comply with paragraph 91, an insurer shall disclose:

(a) the exposures to risks and how they arise.

(b) its objectives, policies and processes for managing risks arising from insurance contracts and the methods used to manage those risks.

(c) any changes in (a) or (b) from the previous period.

Proposed requirement	Staff comment/IASB decisions
(d) information about the effect of ~~the~~ each regulatory frameworks in which the insurer operates, for example minimum capital requirements or required interest rate guarantees.	
(d2) the amount of equity, as determined using IFRSs, that the insurer holds to comply with regulatory requirements. That amount comprises the equity required, as determined using regulatory measurement requirements, together with the effect of differences, if any, between those measurements and the measurements made using IFRSs.	Recommendation (g) in agenda paper 16G
(e) information about insurance risk on a gross and net basis, before and after risk mitigation (eg by reinsurance) including information about:	
(i) the sensitivity to insurance risk in relation to its effect on profit or loss and equity. This shall be disclosed by a sensitivity analysis that shows any material effect on profit or loss and equity that would have resulted from:	
(A) changes in the relevant risk variable that were reasonably possible at the end of the reporting period;	
(B) the methods and inputs used in preparing the sensitivity analysis; and	
(C) any changes from the previous period in the methods and inputs used.	
However, if an insurer uses an alternative method to manage sensitivity to market conditions, such as embedded value or value at risk, it can meet this requirement by disclosing that alternative sensitivity analysis.	
(ii) concentrations of insurance risk, including a description of how	

Proposed requirement	Staff comment/IASB decisions

management determines concentrations and a description of the shared characteristic that identifies each concentration (eg type of insured event, geographical area or currency). Concentrations of insurance risk can arise if an insurer has, for example:

(A) underwritten risks concentrated in one geographical area or one industry.

(B) underwritten risks that are also present in its investment portfolio, for example if an insurer provides product liability protection to pharmaceutical companies and also holds investments in those companies.

(iii) actual claims compared with previous estimates of the undiscounted amount of the claims (ie claims development). The disclosure about claims development shall go back to the period when the earliest material claim(s) arose for which there is uncertainty about the amount and timing of the claims payments, but need not go back more than ten years. An insurer need not disclose information about the development of claims for which uncertainty about the amount and timing of claims payments is typically resolved within one year. An insurer shall reconcile the disclosure about claims development with the carrying amount of the insurance contract liabilities ~~recognised in the statement of financial position~~.

93 For each type of risk, other than insurance risk, arising from insurance contracts, an insurer shall disclose:

Proposed requirement

(a) summary quantitative information about its exposure to that risk at the end of the reporting period. This disclosure shall be based on the information provided internally to the key management personnel of the insurer and shall provide information about the risk management techniques and methodologies applied by the insurer.

(b) concentrations of risk if not apparent from other disclosures. Such concentrations can arise from, for example, interest rate guarantees that come into effect at the same level for an entire book of business.

94 With regard to credit risk arising from reinsurance contracts and, if applicable, other insurance contracts, an insurer shall disclose:

(a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period.

(b) information about the credit quality of reinsurance assets.

95 With regard to liquidity risk, an insurer shall disclose:

(a) ~~either~~ a maturity analysis that shows, at a minimum, the ~~remaining contractual maturities or information about the estimated timing of~~ the expected net cash outflows resulting from recognised insurance liabilities for each of the first five years after the reporting date and in aggregate beyond five years. This may take the form of an analysis, by estimated timing, of the amounts recognised in the statement of financial position.[2]

Staff comment/IASB decisions

At their meeting in the week commencing on 19 September 2011, the boards tentatively decided to require the maturity analysis of net cash outflows resulting from recognised insurance liabilities proposed in paragraph 95(a) of the ED to be based on expected maturities and remove the option to base maturity analysis on remaining contractual maturities. Furthermore, within the context of time bands, to require the

[2] In place of this disclosure, the FASB would rely on its tentative decisions relating to risk disclosures for financial institutions. These disclosures would apply to insurance entities.

Proposed requirement	Staff comment/IASB decisions
(b) a description of how it manages the liquidity risk resulting from its insurance liabilities.	insurer to disclose, at a minimum, the expected maturities on an annual basis for the first five years and in aggregate for maturities beyond five years.
(c) <u>amounts payable on demand, in a way that highlights the relationship between such amounts and the carrying amount of the related contracts.</u>	In March 2012, the IASB tentatively decided that insurers should disclose the amounts payable on demand. Recommendation (h) in agenda paper 16G
96 With regard to market risk (as defined in IFRS 7) an insurer shall disclose: (a) a sensitivity analysis for each type of market risk to which the insurer is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date; if an insurer uses an alternative method to manage sensitivity to market conditions, such as an embedded value analysis, or a sensitivity analysis, such as value at risk, that reflects interdependencies between risk variables and uses it to manage *financial risks*, it may use that sensitivity analysis to meet this requirement. (b) an explanation of the methods and main inputs used in preparing the sensitivity analysis. (c) an explanation of the objective of the methods used and of limitations that may result in the information not fully reflecting the carrying amount of the insurance contracts involved. (d) changes from the previous period in the methods and inputs used and the reasons for such changes. (e) information about exposures to market risk arising from embedded derivatives contained in a host insurance contract, including information	

Proposed requirement	Staff comment/IASB decisions
about the levels at which these exposures begin to have a material effect on the insurers cash flows. 97 If the quantitative information about the insurer’s exposure to risk at the end of the reporting period is not representative of its exposure to risk during the period, it shall disclose that fact, the reasons for those conclusions and shall provide further information that is representative of the exposure during the period.	