



# IFRS – Insurance Newsletter

December 2009, **Issue 2**

This IFRS Insurance Newsletter highlights key developments relating to the joint International Accounting Standards Board (IASB) and U.S. Financial Accounting Standards Board (FASB) Insurance Contracts project, including the results of recent IASB and FASB discussions regarding the measurement model, margins and the use of other comprehensive income (OCI). Additionally, this newsletter provides the current status of the project and anticipated timeline.

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**KPMG's monthly update on the joint IASB / FASB insurance project**

## Project Overview

In December 2009 the IASB and FASB (together the "Boards") made some additional headway toward a converged insurance contracts standard. Following the Boards' meetings in November 2009 at which signs of convergence were evident in decisions made around the accounting for deferred acquisition costs, the Boards' momentum continued with key discussions around the measurement model.

At the Boards' joint meeting in October 2009 there was considerable discussion on the measurement model candidates selected by the IASB (IAS 37 model) and the FASB (fulfilment value) and the need to reconcile the two models, specifically with respect to the treatment of margins and a common measurement objective. At the December meeting, the Boards decided tentatively on a measurement model reflecting a margin split between a risk adjustment and a residual margin. In addition, the Boards put considerable focus on refining the proposed measurement objective to reflect a "value" notion as opposed to a "cost" notion and the principle to be used in determining the risk adjustment.

Although revisions are expected to the measurement objective and the risk adjustment principle, the fundamentals of the converged and refined measurement model do not vary

significantly from the IASB's IAS 37 model. The current model includes an explicit risk adjustment to account for uncertainty about the amount and timing of future cash flows.

In addition to discussions on the measurement model and margins at the joint meeting with the FASB, the IASB discussed the use of OCI in re-measurement of certain insurance liabilities.

With a shrinking timeline (an exposure draft is anticipated in April 2010), the IASB and FASB will likely discuss other items planned for December which were not discussed (embedded derivatives, unbundling and the presentation of the performance statement) in January or February 2010.

### Recent Meetings

The IASB held a separate meeting on 15 December 2009 to discuss the use of OCI in accounting for some insurance liabilities. The IASB and FASB held a joint meeting on 16 December 2009 to discuss the measurement model and the treatment of margins. Summaries of the discussions are provided below.

#### 15 December 2009 IASB Meeting

The IASB considered the use of OCI for re-measurements of insurance liabilities if financial assets held to back those liabilities are not carried at fair value through profit or loss (FVTPL). Under IFRS 4 *Insurance Contracts*, to avoid accounting mismatches in profit or loss or equity, insurers are permitted to use OCI to report changes in the measurement of some insurance liabilities, such as liabilities with participating features, which are driven by unrealised gains or losses on financial assets that are also recognised in OCI. This practice generally is referred to as "shadow accounting".

In the 2007 Discussion Paper *Preliminary Views on Insurance Contracts*, the IASB

proposed that changes in an insurance liability should flow through profit and loss. Some respondents argued that some or all of the changes should be required or permitted to be presented in OCI to avoid accounting mismatches if assets backing insurance liabilities are not measured at FVTPL and to distinguish short-term market volatility that might reverse over the term of the insurance contracts.

The IASB staff analysis on this topic reflects the requirements in IFRS 9 *Financial Instruments*, which is effective for annual periods beginning on or after 1 January 2013 and can be early adopted. Under IFRS 9, amortised cost is used for some financial assets; equity investments generally are measured at FVTPL. However, there is also an option to present gains and losses on equity investments not held for trading in OCI. Under the proposed measurement model for insurance liabilities in the developing insurance standard, insurance liabilities would be measured using a model that is neither full fair value nor amortised cost, resulting in a potential "mismatch" with how financial assets are measured under IFRS 9.

Mismatches also arise in participating contracts with financial assets classified and measured under IFRS 9. When policyholders participate wholly or partly in gains and losses on these assets, some of which may be recognised in OCI, shadow accounting results in the corresponding change to the policyholder participation liability also being recognised in OCI.

Under IAS 39 *Financial Instruments: Recognition and Measurement*, the predecessor to IFRS 9, when available-for-sale assets are sold, gains and losses are recycled out of OCI and into the statement of comprehensive income, while under existing IFRS 4, so are results corresponding to policyholder participation. Under

IFRS 9, although there is an OCI presentation alternative for some equity investments, the realised gains and losses on those investments are not recycled to the income statement. In deliberating IFRS 9, the IASB elected not to address how shadow accounting would be applied in these circumstances (i.e., whether or not liabilities would be recycled).

The IASB staff presented two options to solve the mismatch which may result from OCI:

- 1) Create an exemption for insurers from the standard for accounting for financial assets (IFRS 9).
- 2) Require or permit the use of OCI for changes in insurance liabilities if those liabilities are backed by assets measured at amortised cost or fair value through OCI.

IASB members expressed a strong opinion that creating an exemption for insurers on asset accounting would be setting a precedent to creating an industry-specific standard which is not consistent with their objectives and the broad IFRS Framework. Other considerations by the IASB staff and members included:

- The measurement model under the developing standard uses many elements of fair value and to avoid mismatches, the insurer can elect fair value accounting for assets.
- Allowing the use of OCI for insurers may lead to complex presentations that would not be useful for users.
- Tracking changes in insurance liabilities and related gains and losses on financial assets, and ensuring matching of recycling in the statement of comprehensive income, could prove to be onerous.
- Mismatches could not be "fully eliminated" with the use of OCI because some types of assets held to back insurance contracts are measured at amortised cost.

There was little support from IASB members to allow the use of OCI by insurers to re-measure insurer liabilities, although some members expressed concern about consistency with IAS 19 *Employee Benefits* (under which some gains and losses on re-measurement of defined benefit plans are presented in OCI).

There was overwhelming consensus by the Board that the use OCI for changes in insurance liabilities should not be permitted (14 to one vote) and not to change the accounting for an insurer's assets (15 to zero vote).

### 16 December 2009 IASB / FASB Joint Meeting

The IASB and FASB continued deliberations on measurement of insurance liabilities and the definition and treatment of margins.

### Measurement Model

Previously the IASB and the FASB had each agreed separately to pursue different measurement models with the IASB following an IAS 37 model and the FASB a fulfilment value model. At the October 2009 joint meeting, members of the Boards asked the IASB staff to revisit the measurement models with a desire to reconcile the two approaches and develop a common measurement objective. The Boards also asked the IASB staff to reconsider the applicability of the developing revenue recognition model.

Both the IASB and FASB have an objective of ensuring the insurance contracts model is consistent with other existing and developing standards in both the IFRS and FASB frameworks. One of the key projects considered in various aspects of developing the insurance standard is the revenue recognition project. At the onset of the measurement discussion between the Boards, the IASB staff presented a conceptual illustration of how the developing revenue recognition

standard could be integrated with a possible measurement model for insurance contracts. The staff's presentation demonstrated the challenges involved with applying the developing revenue recognition model to individual insurance contracts which may have multiple components (i.e., embedded protection, service, investment and derivative features) and that this disaggregated component approach to measurement may be less useful to the user and more onerous to track for an insurer. Although there were several questions raised regarding the dynamics and application of this approach, it was generally concluded by the Boards that the revenue recognition model would not be an ideal model to integrate into measuring insurance contracts.

The IASB staff presented a measurement model for consideration by the Boards which closely resembled the IAS 37 model previously accepted by the IASB. The previously selected measurement candidates and their respective building blocks are illustrated in the table below.

### Previous IASB Model

IAS 37 model (modified to exclude day one gains)
Building Block 1 – Probability-weighted current estimates of contractual cash flows #
Building Block 2 – Discounted using current rates to reflect the time value of money #
Building Block 3 – Risk and / or service margin(s) #
Building Block 4 – Residual margin (to remove any profit on inception)

(# Re-measured at each reporting period)

### Previous FASB Model

Current fulfillment value
Building Block 1 – Probability-weighted current estimates of contractual cash flows #
Building Block 2 – Discounted using current rates to reflect the time value of money #
Building Block 3 – Composite margin

The measurement objectives defined under the IASB's IAS 37 model is "to measure the amount that an entity would rationally pay on the reporting date to be relieved of the obligation" while the measurement objective under the FASB fulfilment model reflects the "expected present value of the cost of fulfilling the obligation to the policyholder over time."

The primary differences between these models are in the definition and treatment of the margins. The IAS 37 model includes two explicit pieces of the margin, being a risk adjustment to capture the effects of uncertainty in the amount and timing of future cash flows and a residual margin to eliminate any day one profit since the liability is calibrated to the premium.

The risk adjustment is intended to be the margin a market participant would attribute to the potential variability in the cash flows. An example previously discussed by the IASB is where two identical contracts exist, with the following potential outcomes:

- 1) 50 percent chance of paying 100 and 50 percent chance of paying 0, so probability-weighted cash flow would be 50

2) 50 percent chance of paying 51 and 50 percent chance of paying 49, so again probability-weighted cash flow would be 50.

However, given the variability in the outcomes, a market participant would likely require more consideration to assume the obligation for the first contract than the second contract.

The IASB staff's paper on the measurement model proposed a model that closely aligns with the IAS 37 model which includes *unbiased* probability-weighted current estimates of contractual cash flows, discounting, and the incorporation of an explicit risk adjustment to account for the uncertainty in the amount and timing of cash flows and an additional amount that eliminates any profit at the inception of the contract (residual margin).

The Boards had decided tentatively in previous meetings that recognition of day-one profit should not be permitted. The use of an explicit residual margin (the difference between the premium receivable and the discounted cash flows and risk adjustment) is used to eliminate any day-one profit in the refined model.

In the proposed model in the IASB staff paper, there is a revision to the first building block to include the word "unbiased" probability-weighted cash flows to further emphasise that any adjustment for uncertainty of timing or amount of the future cash flows is captured by the risk margin and not incorporated in the probability-weighted cash flow estimates.

The IASB staff paper also presented a measurement objective that states "to measure an insurance contract equal to its current estimate of the cost to fulfil the present obligation created by the contract" which varies from the initial objective of the IAS 37 model that

reflected an estimate based on "the amount an entity would rationally pay."

Many of the Board members were confused with the definition of the measurement objective presented by the IASB staff and how this coincided with the measurement model. Specifically, many Board members were concerned that the "cost to fulfil" was reflective of the first and second building blocks only and would not include a value attributed to the risk adjustment which is included in the proposed measurement model. Some Board members indicated that the objective should be refined to reflect a "value" notion as opposed to a "cost" notion since the proposed measurement model calibrates the initial liability to the premium charged to the policyholder (which includes embedded insurance margins and the value associated with taking on risk) and not only to the expected cash outflows under the contract.

The Boards decided tentatively that it should portray a current assessment of the insurer's obligation, using the following building blocks:

- the *unbiased*, probability-weighted average of future cash flows expected to arise as the insurer fulfils the obligation;
- the time value of money;
- a risk adjustment for the effects of uncertainty about the amount and timing of future cash flows; and
- an amount that eliminates any gain at inception of the contract.

Although there was not an extensive discussion, the Boards also decided tentatively that the measurement model would not include changes in the insurer's non-performance risk.

It is important to note that the initial IAS 37 measurement model agreed by the IASB included a possible "service" margin which has not been discussed

by the IASB for some time. In the measurement model proposed by the IASB staff and approved by the Boards, a service margin was not explicitly mentioned.

### Definition of the Risk Adjustment Risk Adjustment

The risk adjustment is meant to capture the uncertainty around the amount and timing of cash flows. Some of the Board members and staff believe the risk margin provides useful information to the user of the financial statements regarding the remaining uncertainty associated with the measurement of insurance contracts provided there is a clear measurement and definition of the risk adjustment.

In the IASB staff paper, a measurement principle for the risk adjustment was also introduced to clarify the basis for the risk adjustment which was described as "the amount an insurer would rationally pay to be relieved of risk." In addition to this principle, the IASB staff proposed a set of characteristics which could be applied to risk margins including:

- the less that is known about the current estimate and its trend, the higher the risk adjustment;
- risks with low frequency and high severity will have higher risk adjustments than risks with high frequency and low severity;
- for similar risks, long duration contracts will have higher risk adjustments than those with a shorter duration; and
- risks with wider probability distribution will have a higher risk margin than those with a narrower distribution.

Many Board members agreed with the IASB staff's proposed criteria for the risk adjustment but raised some concerns with the wording of the measurement principle for the risk adjustment. Some Board

members asked why this was not reflective of a price an insurer would require to assume the risk from the policyholder or another party which was an alternative to this definition and reflects more of an entry value notion. Some members analogised the risk adjustment to represent various embedded costs that an insurer bears to provide risk protection such as the cost of capital (e.g., additional cost

borne by an insurance company to satisfy regulatory capital requirements).

The Boards decided tentatively that the risk adjustment should measure the insurer's view of the uncertainty associated with the future cash flows. The Boards discussed various sources of information that an insurer might use to estimate this amount (e.g., the price the insurer would charge if it were

taking on identical obligations with the same remaining risk exposure, or reinsurance prices) and asked the staff to investigate this question further for consideration at a future meeting.

Future discussions on the accounting for both the residual margin and the risk adjustment are expected in early 2010.

### Current Status of the Project

The current status of the insurance contracts project and key decisions made to date are outlined in the table below. Topics labelled "Model of both Boards," indicate that the IASB and FASB have converged in these areas of the project.<sup>1</sup>

Topic	IASB	FASB
Building Blocks	<p><b>"Model of both Boards"</b></p> <p>The Boards decided tentatively that the measurement for insurance contracts should be based on four building blocks:</p> <ul style="list-style-type: none"> <li>● unbiased probability-weighted average future cash flows expected to arise as the insurer fulfils the obligation</li> <li>● discounting (reflecting the time value of money)</li> <li>● risk adjustment for the effects of uncertainty about the amount and timing of cash flows</li> <li>● residual margin to eliminate any gain at inception of the contract.</li> </ul>	
KPMG Observations:	<ul style="list-style-type: none"> <li>● The Boards jointly agreed on the fundamental building blocks of the measurement model, which includes an explicit risk adjustment and an amount to eliminate day one differences.</li> </ul>	
Candidate Measurement Approaches	<p><b>"Model of both Boards"</b></p> <p>The Boards decided tentatively to select the model described above as a common model.</p>	
KPMG Observations:	<ul style="list-style-type: none"> <li>● The IAS 37 model approved by the IASB in September 2009 included a service margin which has not been readdressed by the IASB and was not included in the reaffirmation of the model in December.</li> </ul>	
Exclude Discounting and Margins in some instances?	<p>The IASB has discussed the arguments for and against selecting an approach that uses an estimate of future cash flows with no margins and no discounting. The IASB has also discussed when to use such an approach for non-life claims liabilities and decided tentatively not to add this to the list of measurement candidates.</p>	<p>The FASB has not yet discussed whether, in certain instances, the measurement of insurance contracts should include future cash flows with no margins and no discounting.</p>
KPMG Observations:	<ul style="list-style-type: none"> <li>● Further discussion is expected by the Boards in this area.</li> </ul>	
Use of Inputs	<p><b>"Model of both Boards"</b></p> <p>Estimates of market variables should be consistent with the observable market prices at the end of the reporting period. An insurer should not substitute its own estimate for the observed market prices, even if other evidence causes the insurer to believe that those prices are unrepresentative of conditions at the end of the period.</p> <p>Estimates of non-market variables should reflect all available evidence, both external and internal.</p> <p>The discount rate used in measurement of cash flows should be updated each reporting period.</p>	
KPMG Observations:	<ul style="list-style-type: none"> <li>● Generally, both Boards include measurement based on experience and input of the insurer and consistency with market variables when possible.</li> <li>● This topic was not discussed by the Boards in December as part of the measurement although the staff addressed it in their analysis. This may be revisited as part of the Board discussions in early 2010.</li> </ul>	

<sup>1</sup> These summaries of the IASB and FASB positions were derived from IASB agenda papers and meetings of the Boards in November and December 2009.

Topic	IASB	FASB
Measurement of Margins at Inception	<p><b>“Model of both Boards”</b> The margin at inception should be split into 1) risk adjustment and 2) a residual margin measured by reference to the premium so as to eliminate day one gains.</p>	
KPMG Observations:	<ul style="list-style-type: none"> <li>The IASB had previously agreed that if the initial measurement of an insurance contract results in a day one loss, then the insurer should recognise this in profit or loss. The IASB and FASB did not discuss this item specifically in the joint meeting held in December. The Boards will likely discuss measurement of the margins in January 2010.</li> </ul>	
Discount Rates	<p>The IASB decided tentatively that the discount rate for insurance liabilities conceptually should be adjusted in a way that captures the characteristics of that liability rather than using a discount rate based on expected returns on assets backing the liability.</p> <p>The IASB may not be providing any detailed guidance on how to determine the discount rate.</p>	<p>The FASB has not decided yet on this topic and will discuss at a future meeting.</p>
KPMG Observations:	<ul style="list-style-type: none"> <li>Based on the IASB discussion, the discount rate should capture characteristics of the cash flows including currency, duration and illiquidity.</li> </ul>	
Unearned Premium	<p>The IASB decided tentatively that an unearned premium approach would be appropriate for pre-claim liabilities of short duration insurance contracts and to require rather than permit the use of an unearned premium model for those liabilities.</p>	<p>The FASB has not decided yet on this topic and will discuss at a future meeting.</p>
KPMG Observations:	<ul style="list-style-type: none"> <li>The total liability under an unearned premium model would be the sum of the unearned premiums for the coverage period, any liability from the liability adequacy test and an incurred claims liability.</li> <li>While this approach sounds similar to the current model for short-duration contracts in U.S. GAAP, there will likely be some striking differences. Most notably the use of a risk adjustment for uncertainty and discounting in the claim liability. There are still many questions to be addressed about the application of this approach.</li> </ul>	
Acquisition Costs	<p><b>“Model of both Boards”</b> Acquisition costs are expensed when incurred and the insurer should not recognise any revenue (or income) to offset those costs incurred.</p>	
KPMG Observations:	<ul style="list-style-type: none"> <li>The IASB initially leaned toward the concept that premium revenue includes recovery of acquisition costs and that revenue should be recognised to the extent of “incremental” acquisition costs. This also seemed to be the preference indicated by respondents to the field test questionnaires on this subject.</li> <li>The IASB (eight to six) and the FASB (five to zero) voted at the October joint meeting that no revenue should be recognised at inception maintaining consistency with the revenue recognition project.</li> </ul>	

Topic	IASB	FASB
Policyholder Behaviour (Contract Boundaries)	<p>The measurement should include probability weighted cash flows (i.e., future premiums and cash flows resulting from those premiums such as benefits and claims) including cash flows which the amount or timing is dependent on whether policyholders exercise options in the contracts.</p> <p>The IASB staff is currently developing proposals for identifying the “boundary” of the contract. A proposed starting point to identify a boundary between an existing contract and a new contract could be the right for the insurer to cancel the contract or change the pricing or other terms.</p>	The FASB has not decided yet on this topic and will continue to discuss at a future meeting.
KPMG Observations:	<ul style="list-style-type: none"> <li>• The Boards are currently discussing whether the accounting model should incorporate expectations about cash flows that are a consequence of policyholder renewals or cancellations.</li> <li>• Additionally, there will be further discussion on how to distinguish new contracts from existing contracts. The Boards plan to discuss this topic in early 2010.</li> <li>• A key consideration in the measurement model includes the boundary of a contract in terms of renewals (IASB refers to this as “policyholder behaviour”). The IASB would include cash flows where the amounts or timing depend on whether policyholders exercise options in the contracts. Whether the insurance company can cancel the contract or change the pricing or other terms is the starting point for determining whether cash flows belong to an existing contract or a new contract. The IASB staff is developing additional guidance in this area and the Boards plan to discuss in early 2010.</li> </ul>	
Deposit Floor	Applying the tentative decisions made regarding policyholder behaviour, the IASB confirmed that no deposit floor applies to measurement.	The FASB has not decided yet on this topic and will continue to discuss this further at a future meeting.
Policyholder Accounting	<p>The IASB has not decided yet on this topic and will continue to discuss this further at a future meeting.</p> <p>The IASB asked the IASB staff to provide additional analysis of policyholder accounting, including further detail about:</p> <ul style="list-style-type: none"> <li>• possible issues arising from lack of symmetry between policyholder accounting and the accounting by the issuer of the insurance contract.</li> <li>• any similarities with accounting for reinsurance contracts from the perspective of the policyholder.</li> </ul>	<p>The FASB also has not decided yet on this topic and will continue to discuss this further at a future meeting.</p> <p>The FASB asked the FASB staff to prepare an analysis of policyholder accounting, including further detail about:</p> <ul style="list-style-type: none"> <li>• possible issues arising from lack of symmetry between policyholder accounting and the accounting by the issuer of the insurance contract</li> <li>• any similarities with accounting for reinsurance contracts from the perspective of the policyholder.</li> </ul>
KPMG Observations:	<ul style="list-style-type: none"> <li>• Guidance on reinsurance accounting for both ceding and assuming companies is proposed to be included in the standard. The Boards plan to discuss this topic in the January 2010 joint meeting.</li> </ul>	

Topic	IASB	FASB
Subsequent Treatment of Margins	<p>The IASB decided tentatively that:</p> <ul style="list-style-type: none"> <li>● The driver for the residual margin should result in recognising margins in income systematically in the manner that best demonstrates the insurer's performance under the contract.</li> <li>● The residual margin should be released over the coverage period.</li> <li>● The residual margin should not be adjusted in subsequent reporting periods for changes in estimates.</li> </ul>	<p>The FASB has not decided yet on this topic and will continue to discuss at a future meeting.</p>
KPMG Observations:	<ul style="list-style-type: none"> <li>● The IASB's tentative decision to recognise the residual margin over the coverage period was made on the assumption that the IAS 37 model would be the measurement approach.</li> <li>● While the broader conceptual conclusion of the IASB is to recognise the residual margin for insurance contracts over the coverage period, under their approach the separate margin for risk would likely be recognised over the period to settle the claims / provide policyholder benefits.</li> <li>● The length of the coverage period in the IASB model becomes a key driver for recognising the margin in profit or loss.</li> <li>● There has not be a decision on "how" the residual margin is determined subsequent to the issue of the policy i.e., based on what underlying "drivers." The IASB is still considering broad principles for the driver(s) or specifying the driver(s) to be utilised.</li> <li>● Further discussion of the margins is planned by the Boards in January 2010.</li> </ul>	
Recognition of Insurance Contracts	<p>The IASB has not decided yet on this topic and will discuss again at a future meeting.</p>	<p>The FASB decided tentatively that an entity should recognise an insurance obligation at the earlier of (1) the entity being <i>on risk</i> to provide coverage to the policyholder for insured events and (2) the signing of the insurance contract.</p>
KPMG Observations:	<ul style="list-style-type: none"> <li>● When to begin recognising the contract (e.g., the effective date, the date the contract is entered into or signed, or when there is an unconditional offer extended for coverage) is a significant consideration.</li> <li>● When an insurer is <i>on risk</i> to provide coverage is a key consideration by the FASB.</li> <li>● The FASB supported in principle that recognition begins when an insurer enters into an arrangement with the policyholder.</li> </ul>	
Derecognition of Insurance Contracts	<p>The IASB decided tentatively that an insurer should derecognise insurance liability when it no longer qualifies as a liability of the insurer, applying the derecognition principles of IAS 39.</p>	<p>The FASB decided tentatively on a principle that an insurance liability should be derecognised by an entity when the obligation arising under the insurance contract no longer qualifies as a liability. The liability is eliminated when the entity is no longer on risk and no longer required to transfer any economic resources for that obligation.</p>
KPMG Observations:	<ul style="list-style-type: none"> <li>● The FASB expressly conveyed that purchasing reinsurance does not trigger derecognition of an insurance liability.</li> </ul>	

Topic	IASB	FASB
Participating Contracts	<p>The IASB decided tentatively to explore a model where the measurement of an insurance contract includes expected value (i.e., probability-weighted) cash flows. For this purpose, the payments to policyholders arising from participating features in insurance contracts would be cash flows from the contract like any other; those cash flows should be included in the expected present value basis and treated as an insurance liability.</p>	<p>The FASB decided tentatively to explore a model in which the components of a participating contract have to be bifurcated between the guaranteed feature and the participating feature. The participating feature should then be classified as a liability or equity, either as a whole or by splitting it into components. The cash flows from those participating features that result in an insurance liability (if any) will be included on the basis of expected cash flows. Discretionary cash flows will be recognised when the entity has an obligation to make payments.</p>
KPMG Observations:	<ul style="list-style-type: none"> <li>● Due to the current difference in views, it is possible that both options will be presented in the exposure drafts.</li> <li>● One of the challenges in this area, regardless of the view that is adopted, is that there could be varying impacts from the application of the guidance depending on how products are structured and what regulatory constraints exist in different jurisdictions.</li> <li>● Although there is an aim by some to stay consistent with the principle of bifurcation between liability and equity components in financial instruments (IAS 32 <i>Financial Instruments: Presentation</i>), bifurcation would be difficult to implement in practice for some types of contracts due to the inherent complexity in isolating cash flows from the guaranteed and discretionary features.</li> </ul>	
Use of OCI	<p>The IASB decided tentatively that the accounting for assets held to back insurance contracts, subject to future consideration of assets held to back unit-linked (variable) and index-linked insurance contracts, should not be changed as part of the insurance contracts project. In addition, the IASB decided tentatively that the use of OCI for insurance liabilities will not be permitted or required by the standard.</p>	<p>The FASB has not decided yet on this topic and will discuss at a future meeting.</p>

## Timeline for Completion

The IASB published a revised timetable for the insurance contracts project with an anticipated release of the final standard in June 2011. The timeline aims for issuing an exposure draft in April 2010. Key milestones and timelines are set forth below:

Timeline	Topic for Discussion
To be decided by the Boards	<p>During the December joint meeting of the Boards there were some topics on the agenda for discussion that the Boards were not able to address. The topics include:</p> <p><b>Unbundling</b> Related projects include revenue recognition and financial instruments</p> <p><b>Embedded derivatives</b> Related projects include revenue recognition and financial instruments</p> <p>Further discussion on margins and the presentation of the performance statement were also planned for December 2009, but will likely be captured in the discussions on these topics in January.</p>
January 2010	<p><b>Policyholder participation</b> Related projects include concepts (i.e., elements, recognition) and financial instruments with characteristics of equity</p> <p><b>Presentation (follow up to December discussion)</b> Related projects include revenue recognition, employee benefits, presentation of financial statements, financial instruments</p> <p><b>Participating, unit-linked and index-linked insurance contracts and investment contracts and universal life contracts</b> Related projects include financial instruments, consolidation, derecognition, concepts (reporting entity)</p> <p><b>Margins (follow-up from December 2009 meeting)</b> Related projects include revenue recognition, liabilities</p> <p><b>Definition and scope (including consideration of whether to deal with policyholder accounting)</b> Related projects include financial instruments and revenue recognition</p>
January / February 2010	<p><b>Disclosures</b> Related projects include financial statement presentation</p>
February 2010	<p><b>Business combinations – including definition and scope</b> Related projects include financial instruments and revenue recognition</p> <p><b>Summary of field testing</b></p> <p><b>Reinsurance</b></p>
February / March 2010	Pre-balloting and Sweep issues
March 2010	<p><b>Transition</b> Related Projects include financial instruments</p> <p><b>Sweep issues</b></p>

Timeline	Topic for Discussion
April 2010	Publication of the ED
September 2010	Comments due on ED
September 2010 - February 2011	Summary of comments and discussion on issues raised in the comment letters
March - May 2011	Pre-balloting and Sweep issues
June 2011	Publication of final standard

The activities on this project may be monitored through the IASB website at <http://www.iasb.org> and the FASB website at <http://www.fasb.org>, where summaries of the Board meetings, meeting materials, and project summaries and status are available.

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Publication name: *IFRS – Insurance Newsletter*

Publication number: Issue 2

Publication date: December 2009