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Insurance Accounting Newsletter
Welcomed convergence?

Both the International Accounting Standards Board (IASB) and the American Financial Accounting Standards Board (FASB) have been very busy over the last two months. The October joint meeting of the two Boards in the United States produced a renewed drive towards a convergent IFRS and US GAAP accounting models for insurance contracts. The November joint meeting dealt with one agenda item only, albeit with a new difference emerging between the two Boards. This month's newsletter presents our own understanding of the recent discussions bringing to you our view on the highlights and outcomes of the meetings.

FASB and IASB Joint Meetings

A renewed drive towards IFRS and US GAAP convergence

At the outset of the October joint meeting the Boards' tentative accounting models contained two major differences: the approach to initial measurement and the way in which uncertainty would be reflected in the new accounting model. Following that meeting, initial measurement will be on the same basis for both models and the FASB has agreed to analyse the IASB approach to account for uncertainty with a view to aligning US GAAP.

Acquisition costs incurred to secure an insurance contract must be dealt with in the initial measurement. Both Boards previously agreed to prohibit the capitalisation of these costs as an asset (Deferred Acquisition Costs – DAC). FASB unanimously re-affirmed its arguments for calibrating against the gross consideration receivable from the policyholder on initial measurement of insurance contracts (effectively giving no role to acquisition costs in the measurement). This approach is in line with initial measurement principles that will apply to all contracts with customers when their general project to develop a common accounting standard for revenue recognition from customer contracts is complete. The FASB's argument, in substance, is that there should be no difference between the accounting treatment of a company selling insurance contracts and one selling any other goods or services. This persuaded the majority of the IASB members to modify their previous tentative decision to calibrate the insurance contract liability against the customer consideration net of incremental acquisition costs. The rationale presented by the IASB was the avoidance of distortion effects that arise from different customer considerations charged for the same risk when the risk is insured via different (and more or less expensive) distribution channels.

The IASB has now agreed that the new IFRS will also calibrate the initial measurement to the consideration received gross of acquisition expenses, resulting in the prohibition of any revenue recognition at the point of sale of an insurance contract. Both Boards also reaffirmed that acquisition costs will be expensed as incurred resulting in both models producing a day 1 accounting loss as a result of the calibration of the insurance contract against the gross premium, and the requirement to recognise in full as an expense all acquisition costs incurred. The Boards seemed to have acknowledged that their decision may not represent the economics of selling a profitable insurance contract however, the attraction of reaching a decision that aligns insurance accounting with the general principles of accounting for the sale of bread and milk appeared an irresistible incentive at the October joint meeting.

The second important development from the October joint meeting is that there now appears to be convergence on the accounting for uncertainty and how IFRS and US GAAP will define the third building block of the model. Our understanding of the discussion indicates that the FASB acknowledged not having fully understood the issue surrounding the risk and uncertainty measurement that the IASB had previously articulated for its proposed model. The FASB has now agreed that it will consider an explicit measurement of risk and uncertainty, and potentially abandon the composite margin approach developed in previous discussions. However, this is contingent on the Board having another opportunity to discuss this matter, allowing time for them to read a paper produced by the Staff of the two Boards for their December meeting. The paper will set out the respective models as currently drafted with the aim of making them convergent. The paper will also attempt to reconcile the language used by each Board to guide them towards a correct understanding of the respective views and create a platform for the development of a common model for US GAAP and IFRS.

The final major highlight from the October joint meeting is that the Boards have decided to reconsider the earlier IASB decision to exclude policyholder accounting from the forthcoming Exposure Draft (ED). Although they may ultimately reach the same conclusion, a decision will only be taken after the submission of a new paper on this topic, highlighting the issues the two Boards would like to see discussed in more detail.

Welcomed convergence?

The feedback the IASB and FASB Staff had received to date from a number of preparers and users indicated that there was a preference for the IASB's tentative decision on initial measurement to the FASB's approach. The initial measurement model selected by the IASB before the October joint meeting was focused on producing the most representationally faithful accounting value for an insurance contract, irrespective of the distribution channel the insurer may have chosen for selling the policy. The IASB had acknowledged that in forming this particular view, the customer consideration varies to some extent with the acquisition costs that are incurred by the insurance entity. Furthermore, it had chosen to calibrate the initial measurement of the liability to an adjusted consideration net of those acquisition costs that are incremental and thus, inextricably connected with the consideration received. Calibrating against a net consideration would have resulted in the recognition of revenue at the point of sale, although no recognition of profit would have been allowed. The approach would have also aligned more closely with the economics of selling an insurance contract on profitable terms.

The FASB view, that will now become part of IFRS, was developed with a different emphasis and focuses on revenue recognition rather than a balance sheet measurement.

The position of the FASB focussed on the argument that accepting insurance risk is a service like any other and, in its view, the insurer has performed no service at the point of sale. There is therefore no link between the customer consideration and the amount of acquisition costs incurred, and no conceptual basis for insurance revenue recognition to be different from any of the general principles that the FASB and the IASB are currently developing for contracts with customers to sell goods and services.

At the October joint meeting, the FASB explained that it could not see any reason to concede a special treatment for the insurance contract revenue accounting approach. The FASB members stated that giving insurance contracts a special treatment would have created the industry-based revenue accounting that many considered one of the most negative features of US GAAP, and one that FASB is determined to eliminate.

The FASB members also reminded their IASB colleagues that, under the revenue recognition principles both Boards have approved (e.g. for the sale of goods and services), the payment of commission or any form of acquisition cost to any party would not represent the meeting of an obligation towards a policyholder, thus no revenue would be accounted for.

Having considered this principle, the FASB elaborated further on the option to consider asset recognition for the acquisition disbursement. The Boards accepted that their current decisions under the revenue project would prohibit the valuation of contracts because the accounting is tied to the consideration received from the customer.

The significance of acquisition costs incurred to secure insurance contracts is not a sufficient reason to depart from the principle of expensing those costs as incurred, which would be required for all types of origination costs incurred to secure a customer contract under the future revenue standard.

Following these comments, the voting session produced a convergence outcome, with the FASB members confirming again unanimously its previous decision and the IASB members switching to a new one. With a majority of 8 against 6 (one Board member was absent), the IASB decided to revise its previous decision and indicated that it is now ready to converge to the FASB view that no revenue should be recognised on day 1 with all acquisition costs taken to income as incurred.

Below are some simple examples to illustrate the impact of this new decision from the IASB.

Example 1: Single Premium Insurance Contract

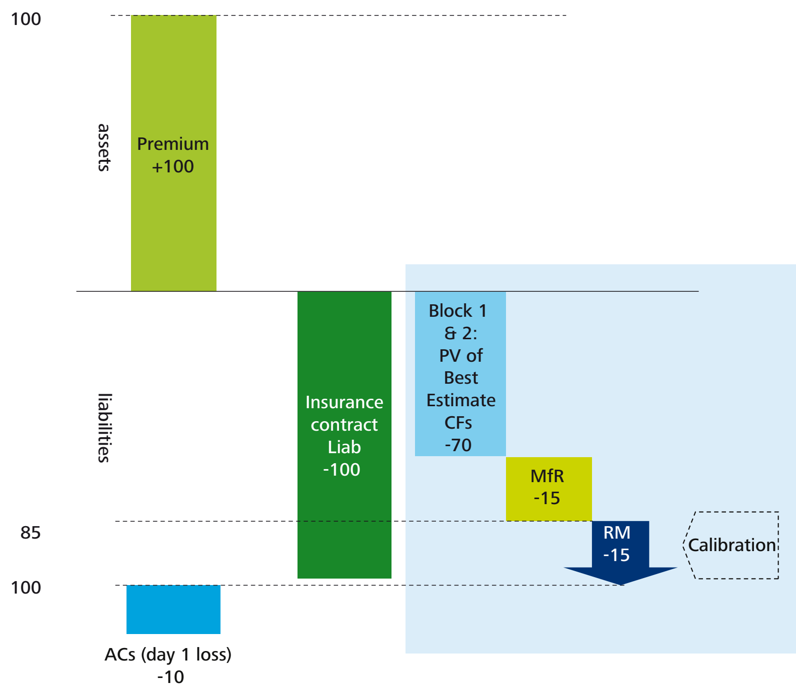
		CU
AC	Acquisition Cost	(10)
SP	Single Premium	100
MfR	Margin for Risk	(15)
Block 1 & 2	Probability weighted present value of future cash flows (in our example, resulting in a net cash outflow as no future premiums will be received but future claims and expenses will have to be paid)	(70)
CFs	Cash Flows	
PVs	Present Value	
RM	Residual Margin	(15)

Asset		Liabilities	
Premium receivable	100	Commission payable	10
		Insurance contract liabilities	100
		Retained loss	(10)
	100		**100**

Income Statement*		Income Statement **	
Revenue	0	Revenue	100
Less: comm	(10)	Less: ins liab	(100)
		Less: comm	(10)
Net Loss	**(10)**	Net Loss	**(10)**

* Deposit accounting format ** Gross presentation format

Based on the new decision taken regarding acquisition costs, the calibration of the residual margin is done using the gross premium. In our illustration, present value of probability weighted cash flows has been estimated at -70, i.e. a liability, as there are no expected future premiums receivable. If a margin for risk of 15 is assumed, it would further increase this liability to 85. To calibrate against the customer consideration, the final insurance liability amount must equal the asset of 100 (gross premium received), and therefore the calibration results in a residual margin of 15 (i.e. 70 + 15 + Residual Margin = 100). The balance sheet on day one will show a net loss of 10 from the acquisition costs incurred to secure the contract. The calibration exercise is shown graphically opposite.



Example 2: Regular Premium Insurance Contract

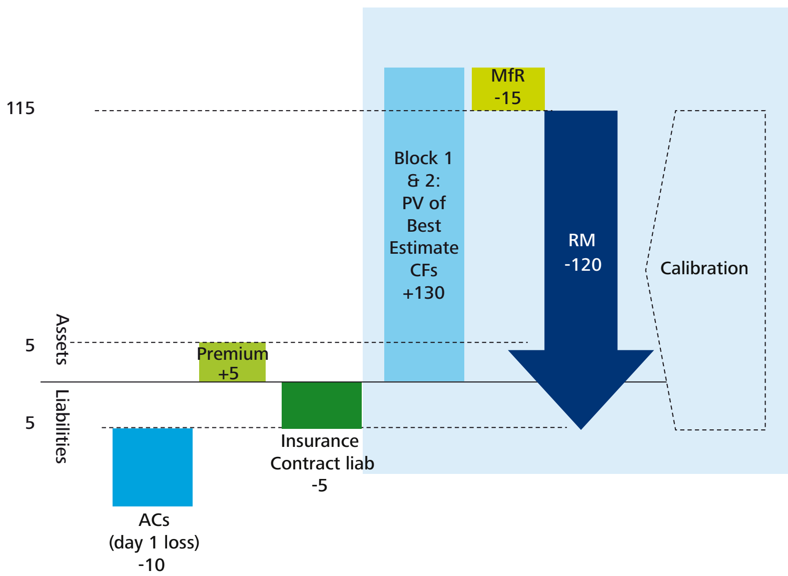
		CU
AC	Acquisition Cost	(10)
RP	First regular premium	5
MfR	Margin for Risk	(15)
Block 1 & 2	Probability weighted present value of future cash flows (in our example, resulting in a net cash inflow as discounted future premiums exceed discounted future claims and expenses)	130
CFs	Cash Flows	
PVs	Present Value	
RM	Residual Margin (Balancing Figure – calibration)	(120)

Asset		Liabilities	
Premium receivable	5	Commission payable	10
		Insurance liability	5
		Retained loss	(10)
	5		**5**

Income Statement*		Income Statement **	
Revenue	0	Revenue	5
Less: comm	(10)	Less Ins. liab.	(5)
		Less: comm	(10)
Net (Loss)	**(10)**	Net (Loss)	**(10)**

* Deposit accounting format ** Gross presentation format

Taking into account recent decisions, the calibration of the residual margin is done using the gross premium also for regular premium contracts. The present value of probability weighted cash flows has been estimated at 130, i.e. expected future premiums receivable exceed expected future benefits payable. The margin for risk, estimated at -15, would reduce the expected value by 15. Based on the new calibration approach, the final insurance liability amount must equal the asset of 5 (gross premium received), and therefore the calibration results in a residual margin of -120 (i.e. +130 – 15 + Residual Margin = 5). The balance sheet on day one will show a net loss of 10 from the acquisition costs incurred to secure the contract, as illustrated above. Opposite is the graphical representation of this calibration exercise.



Converging on the accounting for uncertainty

Having achieved convergence on the first major difference, the two Boards then moved on to consider their second major difference of opinion: the accounting for the risk margin (the third building block). The October joint meeting did not call for a vote on this, but we noted that there is a real possibility of achieving convergence.

A number of the FASB members indicated they are now prepared to accept the IASB position that the insurance accounting model should include an explicit margin for uncertainty and that it should be remeasured at each reporting date. The FASB indicated that its thinking has evolved and it appreciates that while the probability weighted cash flows include the full estimate of the uncertainty captured by the probability distribution, some additional uncertainty remains due to the shape of the distribution.

This fact could be represented in the financial statement as a separate additional liability that should be remeasured at each reporting date, taking into account this particular type of underlying uncertainty. The IASB members commented that this would appear very similar to their current tentative decision to have a separately measured margin for risk.

To facilitate the convergence on this matter the Staff of the two Boards will develop a new paper on the two respective models where the language would be analysed in greater detail to ensure the two Boards have a mutual understanding of each other's position, particularly around this "uncertainty adjustment" which seems to be the new name for the margin for risk.

This renewed drive towards convergence though will deliver also a decision to force insurance accounting into a loss making position every time a new policy is sold. This fact alone could raise the question as to whether this new convergent model would be welcomed by users and preparers and thus the risk that other measures – such as Embedded Value – will continue to be published to reflect "economic reality".

To complete the IASB model on accounting for uncertainty, we note that the Board will have to consider the issue of the appropriate unit of account to measure the margin for risk. We should work on the assumption that the IASB position from its 2007 discussion paper will be the starting point for this discussion. The discussion paper proposed that diversification benefit be included in the calculation of the margin for risk up to the point of a portfolio defined as a group of insurance contracts that share the same risk characteristics (homogeneity test) and are managed together as a single portfolio by the insurance entity (management test). Now that the Boards have moved to an entity specific approach, there could be arguments for an entity specific level of diversification that could extend beyond the notion of a portfolio as defined in the context of the current exit price model presented in the discussion paper. This is a key issue that will have to be debated and analysed by the two Boards, as they finalise their accounting for risk margins.

Following a statement that the two chairmen released after the October joint meeting, the two Boards have now committed to intensify joint discussions on a video conference call basis during 2009 and 2010, to achieve the milestones and the substantial amount of the joint work during 2010-2011. The first "virtual" joint meeting on insurance took place on the 18th of November, which we discuss later in this newsletter.

What about service margins?

One difference that has not been tackled yet from a convergence perspective is the treatment of service margins. These are required under the IASB model when the insurer sells other services to the customers (other than the obligation to stand ready to pay claims). The service margin is the liability that measures the entity specific expected profit for rendering such non-insurance services.

The FASB model would include the service margin as a component of the composite margin, if we assume that both models will have a separate liability for the "uncertainty adjustment" (margin for risk).

The implicit service margin is not remeasured under the FASB model but will be taken to income in a manner that is yet to be decided. Under the IASB model, the service margin is taken to income as a result of subsequent separate remeasurements. This is the same approach required for the risk margin. Only the residual margin is earned in a systematic way independently of the building blocks' remeasurements.

The separate accounting for the expected profit on non-insurance services is required only when such services are actually sold to the policyholder. However, this accounting requirement could be the last major difference between the FASB and the IASB as their models converge. When the two Boards conclude on the risk margin debate, they will have to tackle this remaining issue.

Policyholder accounting – in our out?

The final point discussed at the October joint meeting was whether the ED should include policyholder accounting. The IASB had tentatively decided to exclude policyholder accounting from the ED on pragmatic grounds, focusing its Staff on drafting the accounting model for insurers and using the intervening period during 2010 to focus on policyholder accounting, which would then be included it in the final standard.

A number of Board members did not agree with this approach and took the opportunity of the October joint meeting to air their concerns again, particularly on the issue of symmetry of accounting between policyholder and issuers and how the contract boundaries would actually be dealt with in the context of a policyholder accounting model. The joint debate lead to the conclusion that IASB's decision should be revisited and that the ED would be better written if it included policyholder accounting.

The two Boards decided they would hold a joint debate on this matter focusing on the identification of any issues that may emerge from the alleged lack of symmetry between policyholder's and insurer's accounting models. The debate also plans to consider the accounting for insurance companies holding reinsurance contracts.

If the IASB decision to defer the drafting of policyholder accounting is not confirmed it may result in further delay on the publication of the ED.

Participating insurance contracts

The two Boards discussed the main features of participating insurance contracts and were looking for a general principle to be used in accounting for them. Participating contracts can be characterised by a policyholder paying a higher premium in order to participate in some of the risks and rewards of the underlying pool of insurance contracts. There are typically two elements in such a contract: 'guaranteed minimum benefits' and a discretionary 'participating feature'. The participating feature usually has several points where an insurer can exercise discretion but the insurer is ultimately constrained by the legal, regulatory and contractual terms. This management discretion means that some part of the participating feature may not meet the definition of a liability under the Framework. Two proposed methods of accounting for participating insurance contracts were discussed by the two Boards:

- **View 1** – Treat cash flows arising from a participating feature in an insurance contract as integral to that contract. As such, the cash flows arising from a participating feature would be treated in the same way as all other cash flows arising from the contract. They would be included in the measurement of an insurance liability on an expected present value basis, with no separate recognition.

- **View 2** – Classify the participating feature based on whether it meets the definition of a liability, possibly leading to the bifurcation of the insurance contract. Under this approach, three options are possible for the recognition of the participating feature:

    1. always recognise it separately as equity given the discretionary terms;

    2. split the feature into two elements and classify it as liability to the extent that a legal or constructive obligation exists, with the remainder being classed as equity; and

    3. classify the feature as a liability or equity based on whether the participating feature has characteristics that are predominantly equity or debt.

Many Board members disagreed with View 2, because these funds were not due to equity-holders and should therefore not be included in equity. Proponents of View 1 stated that treating participating features as part of an insurance liability recognised the fact that such features are embedded in an insurance contract and may not have commercial substance without it. View 1 also avoids the complex measurement required to bifurcate both the contract liability and insurance premiums.

Some Board members added that performance measurement under View 1 may be better because liabilities and expenses for policyholder benefits would be recognised in the same period as the results of the underlying insurance contract.

Supporters of View 2 argued that recognising liabilities which do not have a legal or constructive obligation resulted in a departure from the IFRS and US GAAP frameworks. They viewed these benefits as discretionary until declared, and would record them in equity – possibly in a separate non-distributable reserve. Once declared, a liability would be recognised with a charge to the income statement.

At the end of a lively debate, the IASB tentatively voted for View 1, while the FASB tentatively voted for View 2. The two Boards will continue their discussions later, once additional information is prepared and presented by both staffs.

Other differences

Despite the progress made recently there is still a long list of items yet to be discussed and agreed between the two Boards, primarily because the FASB has to cover some ground to catch up to the IASB's current position.

One of the items which the FASB has not yet discussed is the subsequent measurement of the revised composite margin, including the IASB's residual and service margins, and on what basis it should be released to income. One issue that will need to be considered is the impact the acquisition cost decision will have on the release of this composite margin.

Another issue identified during the October joint meeting is that the IFRS 4 Phase II and IAS 37 revised text will also include a transfer principle as a reference for the measurement of these liabilities. The two accounting standards will require that, to account for both general liabilities (IAS 37) and insurance liabilities (IFRS 4), the reporting entity considers the price of transferring such liabilities to a secondary market, if one exists. If that secondary market were to provide a lower liability than the one measured using the three building blocks, the standard would require using that secondary market lower liability for accounting purposes.

This is a principle that the IASB intends to adopt for all general liabilities covered by the scope of IAS 37, not only for insurance. The FASB seems to be uncomfortable with that notion as it believes it is an unnecessary element of the insurance standard, if it is to truly represent an accounting model on a fulfilment value basis.

There are two other matters, already discussed by the IASB, which the FASB has yet to discuss:

- the accounting for future premiums and policyholder behaviour, and
- whether the unearned premium method should be used, and under which conditions.

Feedback from other IASB meetings

As mentioned earlier, October was a busy month for the IASB. In addition to the joint meeting with the FASB, it held its own meeting on 20 October to decide on unbundling and to confirm the approach on future premium accounting in relation to the deposit floor rule.

The IASB Staff proposal to introduce unbundling only when components are not interdependent did not get the support of the Board members. Instead, the IASB asked the Staff to bring this matter back to a future meeting at which they would like to see a more detailed explanation of the notion of interdependence, its comparative analysis with the segmentation notion used in the revenue recognition project, and the consideration as to whether interdependence truly results in the fair value of the whole contract being different from the sum of the fair values of its individual components.

The other important highlight of this IASB meeting is the reconfirmation of the decision to exclude the deposit floor requirement from the measurement of insurance contracts, as a consequence of the May decision to include estimated cash flows arising from certain cancellation and renewal options within the contract boundary. The IASB accepted that one of the outcomes of that decision is that there is no deposit floor rule in the IFRS 4 Phase II.

The Board asked the Staff to develop more specific proposals around the concept of the boundary of an existing insurance contract. These proposals will essentially form the Basis for Conclusion text for the ED.

Unbundling of non-insurance components

The IASB Staff presented a detailed proposal which would have required unbundling for initial measurement in all cases where interdependency between the components of an insurance contract did not exist.

Whenever interdependence exists, the new IFRS would not have prohibited or permitted unbundling, leaving essentially an accounting policy choice to insurers to adopt or not adopt unbundling on a voluntary basis.

The Staff rationale was that its model would have required unbundling only in clear situations, avoiding the issue of arbitrary split of components.

The concept of interdependence was not introduced with a positive definition. Instead, the Staff set out a series of factors to illustrate where interdependencies existed. In particular, the following four were debated:

- when cash flows from one component affect the cash flows from another component;
- when for some or all elements that need to be considered when separating the components, the insurer cannot identify evidence to decide what to allocate to each of the components and therefore the allocation would require an arbitrary split;
- when the contract is priced as a package, no components were negotiated separately and the whole contract has a single commercial objective; and
- when the components involve interrelated activities, services and costs, etc.

The debate highlighted the division of the IASB between those members supporting the Staff proposals and those criticising them on the grounds that the principle of interdependence as articulated would be too wide and result in becoming irrelevant in practice, essentially producing no unbundling at all. Clearly the second group of members aimed at an IFRS that unbundles components on a large scale. A number of other comments were made, which eventually influenced the outcomes of the debate.

Firstly it was noted that interdependence should be compared with the contract segmentation notion as developed in the revenue recognition IFRS.

In addition, some Board members expressed the view that, in their opinion, some insurers do manage their business on an unbundled basis and that it would therefore be possible to use unbundling as a wider accounting basis under the new IFRS. As far as feasibility is concerned, those Board members were of the view that insurance companies possess a feasible model in a number of cases to account on an unbundled basis.

Further evidence of this would be the fact that insurers present their earnings by source, which would appear to be linked to an unbundling business model.

Finally it was questioned whether the fair value of a contract with interdependent components is different from the sum of the individual fair values of the components. It was suggested that this analysis could be a direction for a positive interdependence definition that the Staff may consider.

Having made all these comments, the IASB did not vote for or against the proposals. In spite of this lack of decision, we noted a consensus emerging for requiring unbundling in some circumstances, but defining those circumstances would need further debate on what is meant by interdependency. This notion would also need to be compared with the notion of contract segmentation under the revenue recognition project.

The Staff informed the IASB that it was planning to undertake some targeted field testing in the area of unbundling and that they will not bring back the issue of unbundling until the December meeting to include also the preliminary indications from the field testing firms on the feasibility of unbundling.

No deposit floor in IFRS 4

After extensive debate the IASB reconfirmed its tentative decision that the new IFRS will have to include in the expected weighted probability cash flows all the cash flows arising from cancellation or renewal options. These cash flows would be included within the contract boundaries as defined based on the probability assessment of the policyholder exercising or not that option. The IASB confirmed that such a principle would prevent the application of a deposit floor rule, which a small minority of Board members vocally demanded. Two votes were held on specific aspects of this decision and a majority of 12 against 3 and 13 against 2 showed substantial support for the Staff proposal against a deposit floor rule in IFRS 4.

However the support of the majority was conditional on the Staff being able to develop detailed text on the operation of the concept of contract boundaries and its application to contracts that are known in certain countries as "universal life", where future premiums are allowed to be variable. The future Staff paper should also explain the treatment of types of options whereby the policyholder may have the right to buy future additional insurance coverage. As they formulated these conditions we noted that the majority of IASB members indicated their view that a forward option to purchase a new contract or new different coverage should not be treated as a renewal or cancellation option and it would therefore be outside the contract boundary.

Presentation of performance

The Staff gave an education session of four possible options to present the income statement of an insurance contract: the traditional life approach, the traditional non-life approach, a fee and a margin approaches. All these options will always produce the same profit or loss and the measurement model is not affected by the ultimate choice of one of these models.

We noted some interest around the fee approach basis although this model may only be workable for the accounting of contracts similar to the universal life contracts where there are specific fees for specific components of the contracts.

The Staff drew the IASB's attention to its decision to require the unearned premium method under certain conditions for all insurance contracts. This decision would be inconsistent with the performance statement using the fee or margin approach.

IASB members recommended that the final IFRS should have a more detailed level of disaggregation particularly to reflect the changes in the risk margins.

The December joint FASB-IASB meeting will include a paper to decide on these matters.

Recognition and derecognition

At its meeting on the 17 November, the IASB discussed a Staff recommendation that, consistent with the requirements of IAS 39, an insurer should recognise an insurance contract when it becomes party to the contract.

The Board did not decide on this matter and asked the Staff to provide additional clarification on when the insurer 'becomes party to the insurance contract'. Board members raised the concern that differences between the various international legal and regulatory practices governing when a contract is considered binding should be considered. For example, the act of making an irrevocable offer of an insurance contract may expose the insurer to insurance risk from the point of making the offer in some jurisdictions. It was not clear how the definition of 'becomes party to the insurance contract' would apply in that case.

Another matter that affects initial recogonition is the decision on how to account for the time between entering into the contract and the beginning of the coverage period. In some cases this period can be relatively long and during that time the policyholder may be able to cancel the policy.

Some IASB members viewed the contract before the start of the coverage period as fully executory. Others observed the initial recognition should be from the moment the coverage period begins, but there needs to be more clarification around when the coverage period begins, as this may vary in different jurisdictions. Others suggested that when the contract is signed the expected value of cash flows should be updated even if the coverage period has not started yet.

The Board asked the Staff to resubmit the paper and deferred a decision until a later meeting.

The Board agreed, without significant dissent, that an insurance liability should be derecognised when it no longer qualifies as a liability of the insurer, applying the derecognition principles for financial liabilities under IAS 39.

Timetable

At the meetings in October IASB and FASB retained the timetable for an ED in early 2010 and a standard issued in mid 2011. A revision to this timetable was discussed in the November joint meeting which proposes that the ED will not be issued until April 2010 with a four month comment period. This proposal retains the original date of mid-2011 for issue of the new standards. There did not appear to be any dissent on the new timetable. Any further delay in issuing the ED is likely to make it very difficult for the IASB to finalise the standard by June 2011 when there will be significant changes to the IASB membership.

Appendix: Summary of tentative decisions to date

Converging views	IASB & FASB	
Measurement approach	Basic features of measurement approach: • use estimates of financial market variables consistent with market prices. • use explicit current estimates of the expected cash flows. • reflect the time value of money.	
Measurement objective	IASB has voted in favour (8 v. 7) of the Updated IAS 37 model versus the CFV model. Both models will be presented in the exposure draft.	FASB in favour of CFV
Accounting profit	Prohibition from recognising accounting profit at initial contract recognition	
Negative day one difference	Recognise negative day one difference immediately as a day one loss	
Acquisition costs accounting	Expense as incurred through income	
Revenue Recognition on Day 1	No revenue recognised at initial measurement since the liability is calibrated to the gross premium received from the policyholder.	
Policyholder accounting	The Boards will reconsider the earlier decision to exclude policyholder accounting form the forthcoming ED, after the submission of a new paper on this topic.	

Divergent views	IASB	FASB
Measurement approach – Margins	**Risk margin** – Include an explicit and remeasured margin for uncertainty. **Service margin** – Include an explicit and remeasured margin related to other services' profit. **Residual margin** – Include an explicit margin for initial calibration to premium gross of acquisition costs. The residual margin will be earned over the coverage period, and its release to profit will be independent of changes in the three-building-blocks.	FASB will consider an explicit measurement of risk and uncertainty, and potentially abandon the composite margin approach.
Acquisition costs definition	All costs expensed through income as incurred.	Not considered as all acquisition costs expensed.
Insurance contracts with participation features	The IASB tentatively concluded that participation features should not be measured separately from the host insurance contract.	The FASB tentatively decided that participatory features should only be classed as liabilities when they meet the definition of a liability, particularly in relation to whether there is a legal or constructive obligation to pay.

IASB decisions not yet discussed by FASB	
Discount rates	• Principles based approach, based on liability characteristics (currency, duration and liquidity).
Policyholder behaviour	• Cash flows from renewal and cancellation options are part of the contractual cash flows rather than part of a separate customer intangible asset. • Measurement of these options shall be based on a "look through" approach when reference to standalone price is not available.
Contract boundary	An existing contract terminates when the insurer has an unconditional right to re-underwrite/re-price that individual contract.
Unearned Premium Method	Requirement to use the unearned premium method to account for the pre-claim liability for all contracts which meet all of the following conditions: • cover 12 months or less; • no embedded options or guarantees; and • where the insurer is unlikely to become aware of events which could result in significant decreases in the expected cash outflows.
Deposit Floor	• The IASB reconfirmed tentative decision to include in the first building block all the cash flows arising from the cancellation or the renewal options, i.e. no deposit floor.
Recognition and derecognition	• The IASB declined to make a final decision on recognising insurance contracts, instead asking the staff to perform additional analysis and provide fact patterns at a later meeting. • The IASB agreed that derecognition of insurance liabilities should follow the IAS 39 criteria.

Recent changes

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