

FRC Roundtable on IASB Revised ED *Insurance Contracts*

Summary of discussion

The event began with presentations from:

- Stephen Cooper – IASB Board Member
- Hugh Francis – Aviva
- Francesco Nagari – Deloitte
- Seema Jamil-O'Neill – FRC

The presentations were followed by discussion on the key issues raised with the IASB ED. These included: mandatory use of Other Comprehensive Income (OCI); mirroring proposals for participating contracts; risk margin; revenue recognition and presentation. The main points of discussion for these topics are noted below.

Mandatory use of OCI

- It was noted that the mandatory use of OCI would import a lot of volatility into the financial statements of UK insurers who manage their assets and liabilities on a fair value basis. Examples included where entities realised assets in order to optimise the return on annuities.
- Mandatory OCI use was a particular problem for insurers who matched liabilities with a range of financial assets, some of which may be held at fair value whilst others are held at amortised cost. If they were unable to match the relevant liabilities to the related assets under the new standard then accounting mismatches will be reported for economically matched portfolios.
- It was noted that from a UK perspective a fair value model with an option to use OCI would not result in the level of diversity in practice that the IASB feared. Some constituents put forward the criteria for use of the option to be based on the characteristics of the liability, how the business is managed and the returns being generated for the policyholder. Others noted that it should be based on the way the risk was managed as that approach would provide the most relevant information to investors.
- IASB representatives noted that this was an area the IASB was likely to consider as part of its deliberations of the responses.

Mirroring Proposals for participating contracts

- It was noted that measurement and presentation of insurance liabilities at fair value through profit or loss will not of itself fully address the reporting for participating contracts under the new standard.
- It was noted that for certain types of participating contracts in the UK, the contractual service margin (CSM) needed to be recalibrated to permit investment returns to be booked. These were contracts where the insurer shared in the returns on the capital invested by the policyholder. The nature of such contracts meant that the returns were smoothed over a long period of time and booking short term volatility through the income statement did not provide the most relevant information.

- However, there continued to be concerns about the treatment of options and guarantees under such an approach. It was noted that due to the pooling of the funds 90% of the guarantees were shared with the other policyholders and the insurer was only responsible for 10% of that number.

Risk Margin

- There wasn't clear consensus on whether changes in the risk margin should be put through the CSM, as proposed by EFRAG.
- A number of comments were made about whether the risk margin and CSM were sufficiently different and whether the two should be released on a consistent basis. One suggestion was to release both on the basis of service. There was little support for this proposal amongst the constituents present.

Revenue presentation

- One comment was made about the fact that the revenue presentation proposals in the ED did not serve the life insurance businesses. The suggestion was to go a combined revenue presentation approach. Another proposal was to provide summarised information on the face of the profit or loss statement with the breakdown being presented in the segmental analysis.