
Insurance alert

IASB/FASB Board Meeting

Insurance Contracts

PwC Summary of Meetings

15-16 November 2011

Since a variety of viewpoints are discussed at FASB and IASB meetings, and it is often difficult to characterise the FASB and IASB's tentative conclusions, these minutes may differ in some respects from the actions published in the FASB's Action Alert and IASB Observer notes. In addition, tentative conclusions may be changed or modified at future FASB and IASB meetings. Decisions of the FASB and IASB become final only after completion of a formal ballot to issue a final standard.

Highlights

An IASB only board meeting was held on 15 November 2011, during which the residual margin and targeted improvements to IFRS 9 was discussed. On 16 November 2011, a joint IASB/FASB board meeting was held during which the disaggregation of account balances was discussed.

The IASB voted unanimously to make targeted improvements to IFRS 9, including reconsiderations of the use of OCI in certain instances. Whilst the board believes that IFRS 9 is fundamentally sound, they do believe that clarifications in the application examples are necessary. Further, they have consistently said that the interaction between IFRS 9 and the insurance contract project will be considered once the insurance contracts model is sufficiently developed.

The IASB also held an education session on the residual margin. In this session the board was asked to indicate leanings only and not to make any tentative decisions. On the presumption that the residual margin would be unlocked, the first question the staff asked was which changes in estimates should adjust the residual margin. The majority of board members appeared to lean towards - if the margin was indeed unlocked – unlocking the margin for changes in cash flow estimates only and not for experience adjustments, risk changes or discount rate changes. There was also a leaning towards unlocking the residual margin. However, there was a widespread request that the discussion on re-opening IFRS 9 for insurance specific issues be considered simultaneously. Furthermore, a number of open conceptual questions needed to be addressed before the boards could consider this further.

The boards also considered how to account for and present explicit account balances in the statement of financial position and related income and expenses in the statement of comprehensive income. The staff presented a new proposal to measure both the insurance and investment components under the building block approach (as opposed to unbundling the investment component and measuring this component under the financial instruments standard). However, explicit account balances would be presented separately from the insurance liability (or asset) on the face of the balance sheet. Premiums accumulated in the explicit account balance and claims paid or withdrawals from the explicit account balance would not be recognised in the statement of comprehensive income. In the boards' detailed discussion, there was a diversity of views expressed by both boards on (1) the criteria for determining the investment components to be separated (i.e. whether there were additional elements of insurance contracts beyond explicit account balances, such as cash surrender values and payout annuities, that should be separated), (2) whether to merely "disaggregate" such amounts for presentation only or to "unbundle" them for measurement purposes as well and (3) the impact on the income statement presentation of investment components. As a result, the IASB chair asked that the staff draft another paper to address the issues raised at the meeting.

In addition, the staff provided an overview of the topics discussed at the Insurance Working Group meeting held on 24th October 2011.

Targeted improvements to IFRS 9

The staff introduced a paper on targeted improvements to IFRS 9. It was noted that the board has tentatively approved its recent proposal to move the mandatory effective date of IFRS 9 back to 1 January 2015. The staff stressed that the board had consistently stated that the interaction between IFRS 9 and the insurance project would be considered once the insurance contract model had been developed sufficiently. The staff mentioned that feedback has been obtained on IFRS 9 from early adopters and entities preparing to adopt. The general view of the staff is that IFRS 9 is conceptually sound; therefore a fundamental overhaul is not warranted. Some jurisdictions have already early adopted and any improvements would need to minimise disruption and costs. Furthermore, as the FASB is now finalising their deliberations on the classification and measurement of financial instruments, this would give the board a chance to consider the FASB model once more.

Therefore the staff recommended targeted improvements. The IASB board members noted that constituents would need to be informed as soon as possible, the list of improvement areas would need to be

clearly defined and possibly transition relief offered. Further the precise timeline should be clarified. Another board member noted that the convergence point with the US is very important.

A board member stressed that this cannot be an open ended re-deliberation of phase 1 of IFRS 9 or even a joint re-deliberation with the FASB. It needs to be clearly stated that this is merely addressing the insurance issues arising and refining application issues. If convergence can be driven forward through these changes then this would be positive too. She thought that in IFRS 9 the impairment would need to be addressed first, followed by these limited improvements and macro hedging.

Another board member noted that it was clear that some improvements needed to be done, in particular to the application guidance examples as well as exploring whether some changes in fair values should be taken to OCI rather than the income statement for insurance. It is not strictly necessary that IFRS 9 itself needs to be changed for the insurance mismatch; there would be other ways to achieve this. He voiced his concern that targeted improvements and convergence is contradictory. There is a long list of differences with the FASB; the FASB had the benefit of seeing IFRS 9, yet came to a different answer. There remains an open question about the extent convergence can be achieved even with targeted improvements.

The board unanimously agreed with the staff's recommendation to consider targeted improvements to IFRS 9.

IASB Education session on residual margin

On 15 November, the IASB held an education session on the residual margin (the FASB staff was listening to the session but not commenting given their support for the alternative single margin approach). The staff prepared four papers for this session focussing on (a) whether all changes in estimates should adjust the residual margin, (b) the rationale for unlocking the residual margin and contrasting the two general approaches of either locking or unlocking the residual margin, (c) the allocation of residual margin to profit and loss and d) the accretion of interest on the residual margin. Papers under (c) and (d) however, were not discussed at the meeting due to time constraints.

As background to the education session, the staff explained that in the IASB exposure draft (the "ED") the residual margin was locked in (not re-measured) at inception and then systematically allocated to future periods. However, in the June 2011 board meeting, the board tentatively changed this position and decided that the residual margin should be prospectively adjusted for all favourable and unfavourable changes in estimates of

future cash flows used to measure the insurance liability (with no upper limit) and experience adjustments would be recognised in profit and loss. Further, changes in the risk adjustment would be recognised in profit and loss in the period of change (i.e. changes in the risk adjustment would not unlock the residual margin). The residual margin would not be negative and would be allocated over the coverage period on a systematic basis. The IASB had not decided whether changes in the discount rate should unlock the residual margin.

The board was not asked to make any decisions but, on the presumption that the residual margin is unlocked, to indicate leanings on whether they thought that all changes in estimates used to measure the insurance contract liability should adjust the residual margin. If not, they should indicate which changes in estimate should not adjust the residual margin. Further they were asked to indicate if for cash flows the differences between actual and previous estimates (i.e. experience adjustments) should be recognised in profit and loss. With the understanding of how and for what changes the residual margin could be unlocked, the boards were then in the second paper (b) asked to indicate leanings on whether to confirm their tentative decision from the June 2011 board meeting (which is different from the ED) on unlocking the residual margin.

a) Which changes in estimates adjust the residual margin if the residual margin is unlocked?

The staff explained that from feedback they received different views emerged on which changes should unlock the residual margin. They asked for the rationale for unlocking and stated that they presume that the main justification for unlocking is that the margin represents primarily unearned profit.

A board member stated that he was happy to adjust for all changes in parameters as this is easy to understand. Another board member stated she believed that the residual margin is not a mix of different factors but mainly represents profit that should be spread over the coverage period. She was concerned however, that the current discussions on the asset/liability mismatch and possible OCI treatment impact this discussion on unlocking and they should be addressed first.

Another board member noted, if the margin represents profit, it should be unlocked. He noted that one should not unlock for changes in risk adjustment and discount rate as these are market based variables and risk adjustment is a separate building block. Unlocking for non-market based variables such as morbidity or mortality should be done. The board member also noted that a broader question seems to remain on what the margin really represents.

A board member asked whether, if by unlocking, the model would possibly be made too complex particularly for open portfolios. Even if the unit of account is a portfolio, complex tracking may be required. The board member likened this to a ‘cascading waterfall’ in software revenue recognition: anytime there is a change in the amount to be amortised, it would be accumulated and then reallocated over the remaining period. He generally supported unlocking as it acts as a counter to volatility. However discount rate changes may better be booked into OCI but other changes could be booked against the margin.

The staff noted that insurance companies have indicated unlocking the margin is not too complex. However, complexity may arise in understanding the output which needs to be explained to users. The staff noted that the unlocking would act as a counter to volatility but if the discount rate changes are booked against the residual margin, they would very quickly consume the margin.

Another board member advocated locking in the margin. The reason given was that in no other industry are profits so reliant on judgement and expectations. Investors should be able to monitor very closely how reliable estimates have been, and this would be masked if the residual margin were used to absorb what would otherwise be current period charges or credits due to changes in estimate. Earnings smoothing in the insurance industry is widespread. If the board allows unlocking it would give a new opportunity to smooth earnings and this would make it more difficult for the investor to understand. This is also an argument to not view the unlocking in isolation of IFRS 9 and any possible OCI solution.

Another board member stated support for unlocking for changes in estimates but recognising experience adjustments immediately in profit and loss as changes in discount rates would not be changes in estimates. They would be more akin to a change in circumstance but not in estimates. The board member does not agree with the view that the residual margin represents profit only as it also includes measurement errors.

It was mentioned by a board member that the residual margin is what the name says, a ‘residual’, and trying to find exactly what it is would be arbitrary. It is important to see the entire picture including any OCI solution and at the moment it is hard to decide which changes should unlock the margin. For short duration contracts, however, a locked in approach would be feasible. For long duration contracts that have significant changes in cash flows, unlocking would be sensible. As cash flows have to be estimated in any case for the long duration contracts, complexity should not be an issue and the industry has indicated it is capable of calculating these. He would be in favour only changes in non-financial

variables should be used for unlocking. The changes in interest rates should be kept completely separate.

Another board member asked if the residual margin is unlocked, what is it unlocked for? There are a number of changes such as changes in estimates, in the discount rate, in risk, in experience adjustments, even changes in estimates of incurred claims (incurred in earlier period), and in incurred but not yet identified claims. Before jumping to supporting unlocking or not, the board would need to think of each one of these and their consequences. He mentioned for example a change in discount rates. If the discount rate goes up, the present value of cash flows goes down and if one unlocks the residual margin, the margin would increase significantly. If in the following period, cash flows get worse, the margin would absorb this, i.e. there would be no profit impact. If one supposes however that this was the opposite way, i.e. discount rates go down, then the margin would be quickly absorbed and if then, in a following period, cash flows worsen, there would be a significant profit impact. He asked if it makes sense to unlock changes in discount rates. The board member further believes that the IFRS 9 / OCI interaction is important to consider.

The same board member noted that there is a lot of interaction between changes in discount rates and cash flows. For example discount rates impact lapse assumptions. Is a lapse assumption a financial or non-financial variable? The board said initially that changes in risk assumptions would not unlock the margin. However, if one unlocks for changes in cash flow, what is different about the standard deviation (a measure of risk) of those cash flows? Changes in standard deviation of cash flows would just be another component of cash flows, so this should then also result in unlocking the residual margin. The risk adjustment changes not just because in changes of amount of risk but also because the entity is released from risk (risk runs off). It does not make sense to unlock changes due to the release of risk. If that was done, one would just move the risk adjustment into the residual margin and it would make the risk adjustment pointless. If one were to unlock, then the risk adjustment changes have to be split into two components; i.e. the release from risk, which would be recognised as incurred, and changes in quantum of risk (changes in standard deviation estimate), would have to be unlocked within the residual margin.

Also, in terms of the experience adjustments, the board member saw a problem in identifying what an experience adjustment is. If there is a calendar year end reporter, and if this reporter changes its cash flow estimates on 31 December for the following year, then this change in estimate would be unlocked and booked against the residual margin. If it changed this estimate on 1 January, i.e. during the reporting period, is this

then a change in estimates or an experience adjustment that goes against the profit? There are a lot of unanswered questions that need to be explored before the question can be answered.

Another board member confirmed that the mechanics were not clear to him and also questioned what would happen if the residual margin was already fully absorbed. The question of reconstructing the residual margin would need to be explored in more detail. The staff responded that the build up of the residual margin has not been specifically decided upon but the assumption was that it could be built up again. Further, the staff pointed to IAS 8 which could be used as guidance for distinguishing between what an experience adjustment is and what a change in estimates is. This would however be a judgment call.

A board member noted that one should look at what companies 'normally' do in the course of business and that judgement is involved. Earnings management is possible but the new insurance standard is not an anti abuse standard. If there is a change in estimate before year end for the future, then it would be an adjustment against the residual margin; if the change is an experience change for the current year, then it would be a profit impact.

The staff summarised that most board members would like to link the unlocking discussion to the discussion around IFRS 9 and where changes in discount rates will be booked (OCI or not), but the majority appear to be leaning towards unlocking the residual margin for changes in cash flow estimates. For the changes in the risk adjustment, there are mixed views. However, if the board pursues unlocking, there are a number of further questions to be answered on which estimate changes should be used for unlocking. A board member had two further questions. One was whether one should allocate the residual margin for the period first and then unlock it or would one unlock it first and then allocate it? There appears to be no conceptual reason for one or the other but results would differ. Secondly, how would the 'portfolio' be defined? The unit of account in the ED is normally the portfolio. However, the larger the portfolio, the more offsetting effects there would be. Should the definition of the portfolio for unlocking be the same as in other areas or does the board need to be more specific on what the portfolio is for the unlocking discussion as there is potential for earnings management?

b) Residual margin – two approaches - unlocking versus locking in at inception

The staff explained that the second paper contrasts two approaches to the residual margin which in part have been included in the discussion above. These are

unlocking and locking the margin at inception. The paper gives reasons for unlocking the residual margin as well as for locking it at inception. The paper further shows consequences using an illustrative example of both unlocking and locking the residual margin. In the statement of financial position a locked in margin results in a liability measure that resembles more closely the pattern of the expected cash outflows compared to a partially or fully unlocked residual margin.

A board member noted that he used to be in favour of unlocking the margin. The margin represented profit for him and, supposing a contract was in later years loss making due to changes in estimates, continuing to report profits in the future via the residual margin amortisation when in fact a contract is loss making would not make sense. However, if there are too many complexities in unlocking it may be of limited use and locking in the margin may be better. He would need further input to reach a conclusion.

The staff noted that even locking in the margin creates some complexities on its own. Calculating and keeping a locked in margin for each contract may be complex as contracts are signed every day and may be in force for a long time.

Another board member noted that the asset liability mismatch, OCI solution and unbundling must be seen together. The question of unlocking or locking may not be most important if a separate solution for the discount rate treatment (e.g. changes in estimates of the discount rate booked to OCI) is found. Two other board members agreed with this and also noted that unlocking or locking may be less important for short term contracts.

Another board member leaned towards locking the residual margin at inception. Practically, unlocking would be arbitrary with regards to which changes would be taken to profit and which to the margin. When the boards designed the building block model it was meant to be a current model. It would seem odd not to book impacts of current assumption changes to the income statement. In effect, if one starts to not book these impacts to income the building block model would converge with the premium allocation approach. Conceptually it would be valid to split an insurance liability into an IAS 37 type liability (present value of cash flows which is re-measured) and a revenue recognition type liability (residual margin which is not re-measured). Unlocking does appear more complex and it would seem that more work needs to be done particularly on how unlocking would work for open portfolios. Inherent in a current measurement model is that changes are recognised immediately. Some of the difficulties arise here as the insurance model is a compromise model that is partly current and partly a deferral model (e.g. for the residual margin).

Another board member leaned towards unlocking. Regarding the transparency, he noted that if something is not recognised in the income statement it does not mean that it is not transparent; transparency can be done through disclosure. He also did not think that the analogy to revenue recognition was valid as this is a model on cash flows.

A board member noted that unlocking the margin would create further differences with the FASB which is not supporting the overall objective of convergence.

The Chair summarised that the members overall are interested in seeing the whole picture including any IFRS 9 discussions. There are some questions for the staff to answer to help the board reach a view. The additional information needed revolves around more examples, knock on effects of locking and unlocking the margin and what unlocking or locking means for short term versus long term contracts and the materiality of such decisions.

The staff summarised that they heard more leanings towards unlocking and questions exist on how exactly unlocking works. The leanings towards unlocking may be affected by which changes are unlocked for and what to do with the discount rate and whether there would be anything materially left to unlock after the discount rate is eliminated from the discussion. Further questions on open portfolios would exist on tracking difficulties. A complete picture of how all decisions fit together was seen as critical.

A board member asked for a further education session that addresses the questions. Comprehensive models particularly focussing on discount rate, OCI, unbundling and unlocking should be presented with a number of permutations. This way the complete picture and presentation can be made visible. Distinguishing between life and non-life models would need to be investigated too.

"Disaggregation" versus "unbundling" of explicit account balances

In the ED and the FASB discussion paper (the "DP"), the boards proposed that some components of insurance contracts should be unbundled and measured and accounted for using the guidance that would apply to that component if it were a stand-alone contract. In May the boards tentatively decided to unbundle explicit account balances and goods/services using the criteria for separating performance obligations in the revenue recognition project. This was conditional upon seeing the proposed wording of the separation criteria and illustrations showing what types of contracts would be separated. In June the boards tentatively decided to pursue a presentation model for insurance contracts that would display volume information in the statement of

comprehensive income. Some board members however raised concerns about whether volume information relating to explicit account balances should be included since, in their opinion, the cash flows into and out of such account balances are unrelated to an insurer's underwriting operations.

During the joint board meeting on 16 November 2011, the boards looked to take these previous discussions forward to consider how to both present and measure explicit account balances in the statement of financial position and related income and expenses in the statement of comprehensive income. The boards had already previously tentatively decided that an insurer should unbundle embedded derivatives and goods/services that meet specified criteria from an insurance contract and therefore the meeting did not revisit these decisions.

During the meeting staff presented a refined definition of an explicit account balance. They recommended that a contract has an explicit account balance if the balance represents an accumulation of the monetary amount of transactions between the policyholder and the insurer and the balance is credited with an explicit return. The proposals clarified that an explicit return could be determined by applying a contractual formula in which the insurer may have the ability to reset the return rate during the life of the contract or an allocation determined directly by the performance of specified assets.

In addition, the staff proposed that in a change from the ED and DP, an insurer should measure the explicit account balance (as defined above), and any options, guarantees, and services (e.g. asset management services) associated with explicit account balance together with the insurance components in the insurance contract, using the building block approach. However the insurer should then present the explicit account balances separately ("segregate") from the insurance contracts liability on the face of the statement of financial position. The amount segregated and presented separately would be the explicit account balance including accruals for all fees and returns through to the reporting date, but excluding expected future cash inflows or outflows, whether contractual or based on policyholder behaviour (e.g. surrender charges). A FASB member pointed out that this could result in the explicit account balance being shown as a liability, and the other components of the insurance contract being shown as an asset (for example for the estimate of expected surrender charges being calculated under the building block approach but not included in the account balance).

The staff also proposed that premiums accumulated in the explicit account balance and claims paid or

withdrawals from the explicit account balance should not be recognised in the statement of comprehensive income. However any accrued fees deducted from the explicit account balance, investment returns (on an insurer's assets regardless of whether or not the explicit account balance is linked to those assets) and interest credited to the explicit account balance should be recognised in the statement of comprehensive income.

Under the proposals put forward to the boards, it was intended by the staff that insurers of certain traditional life insurance contracts with a cash surrender value ("CSV") would not segregate and present the CSV separately as the staff believed the CSV to be more of an implicit (i.e. derived) account balance as opposed to an accumulation of transactions between the policyholder and the insurer. However for many of the non-traditional life insurance contracts with policy holder account balances (which include universal life, variable universal life, deferred annuities and unit-linked insurance contracts) the account balance would be separately presented. The staff believes that the latter contracts have an explicit account balance as the account value (that can be withdrawn by the policyholder) is directly increased by the amount of premiums paid and investment income or interest credited and fees are withdrawn over time (i.e. they represent an accumulation of transactions between the policyholder and the insurer).

During board discussions a variety of points were made in relation to the staff proposals above. A FASB member questioned why CSV would not be considered equivalent to an account balance. One IASB member noted that in his view a large proportion of insurance contracts have both an insurance element and some form of pre-funding/account balance feature, whether explicit or implicit, and therefore there is a great deal of subjectivity in determining which elements should be considered separately. Other board members also expressed concern as to whether the guidance proposed creates an arbitrary line where there may be in substance some contracts that are practically the same, however they may fail the explicit account balance criteria and thus would be accounted for differently. They therefore questioned whether the proposals go far enough.

In addition, one IASB member provided an example of an immediate payout annuity whereby a policyholder provides money (a single premium payment) to an insurer, who subsequently will pay the policyholder annual payments until they die. Whilst there was agreement that this was insurance, in his view the saving component would not meet the criteria of an explicit account balance and therefore he was concerned that inflows and outflows into this account balance would be treated as premiums and claims within the statement of

comprehensive income. In his opinion the proposals would not reflect the true economics of the contract as insurance volume information would inappropriately include the investment component.

One FASB member noted that although the staff paper seems to focus on the balance sheet, in her view the key issue was more related to revenue and to the extent that balances are determined to be explicit account balances, the cash inflows and outflows with the policyholder should not be presented as revenue and expense in the income statement.

The boards discussed whether insurers should be required to (1) follow the latest staff proposal to merely present the explicit account balances separately from the insurance contracts liability on the face of the statement of financial position but measure the entire insurance contract, including the explicit account balance, using the building block approach, or (2) as per the ED and DP proposals, unbundle the account balance and measure and account for it in accordance with financial instrument guidance.

The staff noted that if the investment component is unbundled and measured under the financial instrument model, the liability could potentially be at amortised cost, at fair value (under the fair value option), or at the demand deposit amount if higher. Given that the building block approach is a current value approach (and not an amortised cost or fair value approach), different measurement could result if the investment component were unbundled. In addition to the difference between amortised cost and the building block approach resulting from the use of the account balance rate versus a current discount rate, differences could also exist in situations where the amortised cost approach would not value options, guarantees, and fees on a current basis. When asked how building block current value might differ from fair value, the boards were reminded that the building block approach excludes the insurer's own credit risk from the discount rate.

One IASB board member raised a concern that under the staff's proposals some contracts that have very large account balances may be accounted for as insurance and this would be misleading. Another IASB member responded by highlighting that these contracts would have already been assessed to consider whether they have significant insurance risk and are therefore considered insurance, and it was now a separate consideration as to whether the account balance is presented separately. If the contract has been considered insurance (albeit with an account balance element) then in his view they would expect a degree of interplay in most cases between the two elements and therefore the building block measurement model would be the most

appropriate to capture this interplay. He also highlighted that to the extent that amounts can be withdrawn at the discretion of the policy holder (i.e. explicit and implicit balances), then this amount should not be segregated and presented on the face of the balance sheet, but disclosed instead within the notes.

Another IASB member noted that he saw the two components as two different performance obligations and therefore it would be appropriate to use two different models (i.e. unbundle). However, other members highlighted the subjectivity and difficulty in terms of allocations that would need to be made under an unbundling approach. For example, whether and how service fees and acquisition costs would be allocated would need to be addressed. Some also expressed concern with the practicability of identifying and adjusting for cross subsidies within components of contracts, for example, where a company might provide an above market crediting rate on the account balance but also charge a higher cost of insurance fee, these differences would need to be reallocated if the account balance component and insurance component were measured on different bases. Another IASB member suggested that a combination of unbundling and segregation may be appropriate. A FASB member suggested that perhaps further guidance could be included within the proposed standard for insurance as to how to account for the unbundled element rather than referring this element to a different standard.

The staff reiterated that one of the advantages of measuring the account balance and insurance element as one contract under the building block approach (and then segregating the account balance) is that many of the contracts that have explicit account balances have features that would not be measured on a current value basis under amortised cost financial instrument accounting, (for example certain minimum interest rate guarantees that are not derivatives, the value of future servicing fees, and surrender charges).

While no final decisions were reached, toward the end of the meeting, the FASB chair polled and summarised several key views expressed by FASB members. The FASB believes that at least those deposits meeting the explicit account balance definition should be separated on the balance sheet and excluded from premium and benefits in the income statement. In terms of how such amounts should be measured, five FASB members want to explore whether such balances (and potentially any options, guarantees, and service elements relating to those balances) should be measured under a financial instrument model rather than the building blocks approach. In conjunction with this, they asked the staff to provide an analysis of the potential differences in measurement between the building block approach and financial instrument model.

The IASB seemed to be leaning towards separation of some sort of explicit account balances and maybe more, but it was unclear where they stood on whether or not such separated amount should merely be presented separately or measured separately as well.

In summary, there was a diversity of views expressed by both boards on (1) the criteria for determining the investment components to be separated (i.e. whether there were additional elements of insurance contracts beyond explicit account balances, such as cash surrender values and payout annuities, that should be separated) (2) whether to merely "disaggregate" such amounts for presentation only or to "unbundle" them for measurement purposes as well and (3) the impact on the income statement presentation of investment components. As a result, the IASB chair asked that the staff draft another paper to address the issues raised at the meeting.

Insurance Working Group Meeting

The staff provided an overview of the topics discussed at the Insurance Working Group meeting held on 24 October 2011. The meeting was dominated by a discussion of other comprehensive income (OCI) and included two presentations from representative preparer groups on their proposals for OCI. Points highlighted were:

- Some commented that the 'mirroring approach' to participating contracts was very welcome (as a clarification from the previous meeting).
- There is a need to have assets and liabilities measured on a consistent basis either a current-current approach (ie current valuation of assets and current valuation of liabilities) or cost-cost approach. There was some support for cost-cost as providing more reliable information about the cash that will actually flow through to shareholders. However, a current measurement of the insurance liability was generally favoured provided a workable OCI solution for both the insurance liabilities and related invested assets is developed that would reduce volatility from accounting mismatches.

- Participants also noted that while OCI might help for 'continental-style contracts' (where payments to policyholders are based on realised gains) it would not help for 'UK-style with profits' contracts (where payments to policyholders are based on a total return basis, i.e. based on realised and unrealised gains). While supportive of the proposals discussed, it was suggested that the boards consider whether additional steps may be needed to address 'UK-style with profits' contracts.

In addition the staff reported back to the working group on the boards' discussions on the premium allocation approach in October and presented a paper detailing possible simplifications. They also considered 3 possible approaches to reinsurance. In addition, the staff received feedback on the changes to the contract boundary wording made in March about constituents' concern with how to interpret the words. The staff requested from the working group concrete examples of contracts that have a shorter contract boundary than commenters believed appropriate to help them evaluate both the decision and the drafting.

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