SOCIETY OF ACTUARIES

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Spring Cleaning

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This year, both the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) performed their spring cleaning a bit early. Almost all major issues having been debated and tentatively resolved; most of the discussions were about smaller issues that remained to be addressed. In keeping with that agenda, here are some thoughts that have not made previous articles.

COMPARABILITY

Very frequently in discussions of alternative proposals, we hear comments about which alternative will allow for more comparability of results. Sometimes the discussion is with respect to comparing one insurance company with another; other times it's between insurance companies and other financial companies (e.g., banks). Unfortunately, the more theoretical the answer is, the more difficult the comparison becomes.

The building-block approach, for instance, is a sound general principle that by its nature leads to results that are only comparable within ranges. Two individuals asked to project the present value of future cash flows (the first two building blocks) for a given portfolio of insurance contracts will almost certainly reach different answers. Neither may be right or wrong; the future is unknown and unknowable and projections are therefore somewhat subjective. The best we can do is a rough estimate that is almost certain to be wrong.

I conclude, therefore, that practicality must be given a larger weight in setting a standard than comparability. Insisting on theoretically correct, detailed calculations (e.g., market-consistent stochastic cash flows and discounting) may be a waste of money unless cash flows are very sensitive to small interest rate movements, and can actually lead to less comparability since the assumptions themselves, being more complex, will be more difficult to compare.

DISCOUNT RATES

When the insurance contracts project started, the IASB proposed to require a risk-free yield curve for discounting. When preparers objected, on both theoretical and practical grounds, this was changed first to risk free + liquidity adjustment (as in Solvency II), and then the top-down approach was also allowed. There are significant theoretical and practical difficulties with all these approaches that have been well documented and discussed. I want to deal with a non-theoretical question having to do with practicality and comparability.

In all of these formulations, actuaries have generally thought in terms of a discount "rate"; whereas others have thought in terms of a "yield curve." Unfortunately, neither accomplishes what is needed to produce a useful result. A yield curve, or more likely a set of yield curves, is extremely difficult to work with technically and to describe to users; a single rate, on the other hand, does not capture the timing of future cash flows but is simple to explain.

It's very difficult to compare companies as the yield curve used for discounting changes over time, especially if each company makes its own determination of how it will change. It would be just as valid and far more useful to allow the use of a single discount rate for each year's cash flows based, for instance, on the projected portfolio rate for that year (after deduction for expected and unexpected defaults as appropriate). One could then display those rates in a simple graph or table that could be easily understood.

To facilitate comparability, each company should also be required to compute an equivalent level discount rate for each liability (or portfolio of liabilities) regardless of how they actually calculate that liability. If a company tells you the equivalent discount rate on a liability moved from 5 percent to 4.9 percent, that would be far more useful in understanding what happened than being told that the slope of the yield curve changed and rates went up or down by 10 to 25 basis points depending on duration.

REALITY

To do the discounting required in the building-block approach, the actuary needs to determine what interest rates to use. This choice is often described in terms of "real-world" interest rates vs. "market-consistent" interest rates. I've been struggling with these concepts for many years, and I consistently wonder how an actuary can use any rates that are not "real-world" unless

arbitrarily required to by some standard. After all, if the rates are not real-world, what world do they apply to? Why should a liability that, on a going concern basis, will not be sold in the marketplace and for which there is no active market, use rates that are used to price assets that are freely marketed?

RETIREMENT

The new accounting standards are expected to be effective Jan. 1, 2018. Solvency II looks like it could be on roughly the same time frame. Comframe also looks like it's due to be effective then. Even PBR might be approved about then. That seems like a good retirement date.

QUARTERLY MEETINGS

This quarter the boards met jointly only in January. After that, they went their own ways as they tried to finish their respective discussions and staff started drafting in earnest. About the time you read this, both Exposure Drafts should be out or almost out.

The new accounting standards are expected to be effective Jan. 1, 2018.

JANUARY MEETINGS

JOINT MEETING OF IASB AND FASB

Allocation of Insurance Contract Revenue upon a Change in the Pattern of Expected Claims

The boards tentatively decided that, if there is a change in the expected pattern of future claims, the remaining insurance contract revenue should be reallocated prospectively to reflect the latest estimates of that pattern.

Transition for Insurance Contract Revenue

The IASB tentatively decided that, on transition, an insurer should estimate the amount of revenue to be recognized in future periods by estimating the residual margin or initial loss included in the liability for remaining coverage. In estimating that residual margin or loss, an insurer shall assume that the risk adjustment at inception equals the risk adjustment on transition.

In addition, the IASB decided that when retrospective application is impracticable, an insurer shall estimate the residual margin by maximizing the use of objective data. In other words, an insurer should not calibrate the residual margin to the insurance liability as it was measured using previous GAAP.

The FASB tentatively decided that for contracts accounted for under the building-block approach that are in force at transition, the amount of the revenue to be recognized after transition should be determined as follows:

- For contracts for which the margin is determined through retrospective application, the insurance contract revenue remaining to be earned as of the

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date of transition should be determined retrospectively by using the assumptions applied in the retrospective determination of the margin.

- For contracts for which retrospective application is impracticable for determining the margin because it would require significant estimates that are not based solely on objective information, the remaining insurance contract revenue to be earned should be presumed to equal the amount of the liability for remaining coverage (excluding any investment components) recorded at the date of transition (plus accretion of interest).
  - The liability for remaining coverage for these contracts at the date of transition should be presumed not to consist of any losses on initial recognition or of changes in estimate of future cash flows recognized in profit or loss after the inception of the contracts.
  - The remaining insurance contract revenue to be earned shall be limited to the total expected cumulative consideration for in-force policies in the portfolio (plus interest accretion and less investment component receipts).
  - The remaining insurance contract revenue should be allocated to periods subsequent to the date of transition in proportion to the value of coverage (and any other services) that the insurer has provided for the period (i.e., applying the pattern of expected claims and expenses and release of margin).

IASB-ONLY MEETING

Definition and Scope

The IASB tentatively decided:

- Not to address policyholder accounting (except for cedants) in the insurance contracts project;
- Not to create specific guidance on grandfathering the definition of an insurance contract; and
- Not to create specific guidance on takaful (i.e., Islamic insurance allowed by the Sharia).

Recognition

The IASB tentatively decided to revise the recognition point to clarify that the recognition point for deferred annuities is the earlier of the start of the coverage period or the date on which the first premium becomes due. In the absence of a contractual due date, the premium is deemed to be due when received. Some preparers had wondered if the effective date of coverage meant when benefits became payable which would have meant no recognition of the liability until then.

Measurement

The IASB tentatively decided:

- To clarify that the cash flows relating to tax payments should be evaluated and treated like any other cash flows;
- Not to address discounting of deferred taxes in the Insurance Contracts project; and
- Not to create specific guidance on tacit renewals or cash bonuses.

Reinsurance

The IASB tentatively decided:

- Not to impose a limit on unfavorable adjustments against the positive residual margin on reinsurance contracts held by a cedant; and
- To confirm the proposal in the 2010 Exposure Draft that an insurer should treat ceding commissions as a reduction of premiums ceded to the reinsurer. This tentative decision is a problem since it means the net premium for the cedent in a coinsurance arrangement would not be consistent with the claims. For instance, a 50 percent ceded arrangement would show greater than 50 percent premium but only 50 percent of claims. This would be misleading.

Premium Allocation Approach

The IASB tentatively decided:

- To align the requirements for reducing the liability for remaining coverage in the premium allocation approach with the requirements for releasing the residual margin in the building-block approach; and
- For contracts accounted for using the premium allocation approach, to provide an insurer with relief from disclosing a maturity analysis of cash flows for the liability for remaining coverage.

Business Combinations and Portfolio Transfers

The IASB tentatively decided:

- To confirm the proposal in the 2010 Exposure Draft that different requirements should apply to business combinations and portfolio transfers; and
- Not to create explicit guidance on the allocation period of the residual margin in a business combination or portfolio transfer.

Implementation Guidance

The IASB tentatively decided:

- Not to carry forward the implementation guidance that currently accompanies IFRS 4 Insurance Contracts to the new standard; and
- To add an explicit explanation that not carrying forward implementation guidance of IFRS 4 does not mean that the IASB rejected it.

FEBRUARY MEETINGS

IASB MEETINGS

The IASB met to complete its planned technical discussions of the proposed model for accounting for insurance contracts. The IASB staff also requested permission to begin the balloting process for the revised Exposure Draft.

Transition Requirements for Contracts Acquired through a Business Combination

The IASB tentatively decided that:

a. In applying the transition requirements for insurance contracts, an insurer should account for the in-force contracts that were previously acquired through a business combination using:
   i. The date of the business combination as the date of inception of those contracts; and
   ii. The fair value of those contracts at the date of the business combination as the premium received.
b. When an insurer first applies the forthcoming Insurance Contracts Standard to insurance contracts that were previously acquired through a business combination, any gains or losses should adjust retained earnings (rather than goodwill).

Permission to Ballot a Revised Exposure Draft for Insurance Contracts

In September 2012, the IASB agreed to publish a revised Exposure Draft of the proposals on accounting for insurance contracts but to seek feedback only on the following issues:

a. Treatment of participating contracts;
b. Presentation of premiums and claims in the statement of comprehensive income;
c. Treatment of the unearned profit in an insurance contract;
d. Presenting, in other comprehensive income, the effect of changes in the discount rate used to measure the insurance contract liability; and
e. The approach to transition.

At this meeting, the IASB concluded that it had met the due process requirements to begin the balloting process. The IASB also noted that it has undertaken extensive outreach and comprehensively addressed the comments from respondents to the 2010 Exposure Draft *Insurance Contracts*. The IASB intends to undertake fieldwork with preparers and users of financial statements during the comment period to assess the costs and benefits of the targeted proposals. Accordingly, the IASB gave permission to begin the process of balloting the revised Exposure Draft.

All IASB members agreed, but Stephen Cooper noted his intention to dissent from the publication of the revised Exposure Draft.

The IASB tentatively decided that the revised Exposure Draft should be open for comments for 120 days.

FASB MEETINGS

The FASB continued its discussions of the proposed insurance contracts standard on Feb. 6. The boards discussed (1) accounting for guarantees, (2) modifications of insurance contracts, and (3) foreign currency transactions.

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Project Scope—Accounting for Guarantees

The board tentatively decided that the proposed Insurance Contracts Standard should apply to all guarantee contracts that meet the definition of an insurance contract except those that have any of a number of explicit characteristics (unless the guarantee meets any other scope exception previously tentatively decided on by the board).

Modifications of Insurance Contracts

The board tentatively decided that:

1. An insurer should derecognize an existing contract and recognize a new contract (under the applicable guidance for the new contract) if it amends the contract in a way that would have resulted in a different assessment of either of the following items had the amended terms been in place at the inception of the contract:
    a. Whether the contract is within the scope of the insurance contract standard
    b. Whether to use the premium allocation approach or the building-block approach to account for the insurance contract.
2. Additionally, an insurer should derecognize an existing contract and recognize a new contract if any of the following conditions exist:
    a. The insured event, risk, or period of coverage of the contract has changed, as noted by significant changes in the kind and degree of mortality risk, morbidity risk or other insurance risk, if any.
    b. The nature of the investment return rights (for example, whether amounts are determined by formulas specified by the contract, pass through of actual performance of referenced investments, or at the discretion of the insurer) accounted for as part of the insurance contract, if any, between the insurance enterprise and the contract holder has changed.
    c. Any additional deposit, premium or charge relating to the original benefit or coverage, in excess of amounts specified or allowed in the original contract, is required to effect the transaction; or if there is a reduction in the original benefit or coverage, the deposit, premiums, or charges are not reduced by an amount at least equal to the corresponding reduction in benefits or coverage.
    d. There is a net reduction in the contract holder's account value or the cash surrender value, if any exists, other than resulting from distributions to the contract holder or contract designee or charges related to newly purchased or elected benefits or coverages.
    e. There is a change in the participation or dividend features of the contract, if any such features exist.

The FASB continued its discussions of the proposed insurance contracts standard on Feb. 13. The board discussed (1) reconsideration of the measurement of investment components and the aggregate insurance contracts revenue, (2) transition, (3) effective date and comparative financial statements, (4) early adoption, and (5) comment period.

Reconsideration of the Measurement of Investment Components and the Aggregate Insurance Contracts Revenue

The board decided the following:

1. The amount of consideration allocated to investment components and excluded from the premium presented in the statement of comprehensive income should be equal to the cash flows the insurer estimates it will be obligated to pay to policyholders or their beneficiaries regardless of whether an insured event occurs.

2. At each reporting date, these cash flows should be re-estimated based on current assumptions utilized in the measurement of the insurance contract liability, with any effect on insurance contract revenue allocated prospectively to periods in proportion to the value of coverage (and any other services) that the insurer estimates will be provided in those periods.

Transition

The board decided the following:

1. When determining the margin at contract inception, insurers can measure the insurance contract liability and the margin using the insurers' determination of the portfolio immediately prior to transition.
2. Contracts written or substantially modified subsequent to the transition date should be grouped into portfolios in accordance with the proposed guidance, which if different than (1) may require separate portfolios.

Effective Date and Comparative Financial Statements

The board decided the following:

1. Not to include in the Exposure Draft, Insurance Contracts Update, a minimum time period between the issuance of the proposed guidance and the effective date, but rather to ask a question regarding key drivers impacting timing of implementation.

2. The effective date for nonpublic entities will be a minimum of one year after the effective date for public entities.

3. Insurers would be required to restate all comparative periods presented.

Early Adoption

The board decided that insurers would not be allowed to early adopt the proposed guidance.

Comment Period

The board decided to provide a 120-day comment period for the upcoming Exposure Draft, *Insurance Contracts Update*.

On Feb. 20, the FASB continued its discussion of Insurance Contracts.

Segregated Assets Related to Direct Performance Linked Insurance Contracts

The board decided the following:

1. The liability for "direct performance linked insurance contracts" and the assets directly linked to those liabilities should be reported in the insurer's financial statements.
2. The guidance described in 3 through 9 below applies if the segregated fund arrangement meets both of the following conditions:

   a. The insurer must, as a result of contractual, statutory, or regulatory requirements, invest the contract holder's funds directed by the contract holder in designated investment alternatives or in accordance with specific investment objectives or policies. Investment of a portion of the contract holder's funds would not meet this criterion.
   b. All investment performance, net of contract fees and assessments, must as a result of contractual, statutory or regulatory requirements be passed through to the individual contract holder.

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i. Contracts may specify conditions under which there may be a minimum guarantee, but not a ceiling, because a ceiling would prohibit all investment performance from being passed through to the contract holder.
ii. Contractual features that give the insurer discretion on the amount or timing of the pass through would not meet this criterion. For example, if performance is passed through to individual contract holders on the basis of realized gains on the investment portfolio or when the insurer declares a "dividend," the investment performance is deemed to not be passed through to the individual contract holder.

> The board decided … An insurer should accrete interest on the margin to reflect the time value of money.

3. The guidance in Subtopic 944-80, Financial Services—Insurance—Separate Accounts, regarding an insurer's consideration of qualifying segregated fund arrangements when performing analyses for consolidation under Subtopic 810-10, Consolidation—Overall, should be retained (retention of Accounting Standards Update 2010-15).
4. An insurer should record the contract holder funds and its proportionate interest in the qualifying segregated fund arrangements at fair value through net income.
5. The assets in the qualifying segregated fund arrangements should be presented separately in the statement of financial position or disclosed in the notes.
6. An insurer should disclose the amount of the assets in the qualifying segregated fund arrangements that:
   a. Are legally insulated from the general account and those that are not.
   b. Represent the insurer's proportionate interest.
7. The liabilities directly linked to segregated fund arrangements should be disclosed in the notes.
8. Revenues and expenses need not be presented separately from revenues and expenses for other insurance contracts in the statement of comprehensive income.
9. Investment income generated from the assets in the qualifying segregated fund arrangements and the interest credited to contract holders as a pass through of that investment income should be presented separately as part of investment income and interest expense in the statement of comprehensive income or disclosed in the notes.

Accretion of Interest on the Margin

The board decided the following:

a. An insurer should accrete interest on the margin to reflect the time value of money.
b. The interest accretion rates should be based on the same yield curves used for purposes of discounting the cash flows determined at inception of the portfolio of insurance contracts and not subsequently adjusted.

Presentation in the Statement of Financial Position and Statement of Comprehensive Income

The board affirmed its prior decision that an insurer would present the following in the statement of financial position:

1. For the building-block approach, an insurer would present the unconditional right to premiums or other considerations as a receivable separately from the insurance contract asset or liability and accounted for in accordance with existing guidance for receivables.
2. For the premium allocation approach, an insurer would disaggregate the liability into components including the liability for remaining coverage, the liability for incurred claims, and the gross premium receivable.

The board decided that for the premium allocation approach insurers would not be required to disclose the

undiscounted amount of liabilities parenthetically on the face of the statement of financial position.

The board made the following decisions regarding presentation in the statement of comprehensive income. An insurer would present:

1. Insurance contract revenue from contracts measured using the building-block approach separately from contracts accounted for using the premium allocation approach
2. Insurance contract revenue and expenses arising from ceded reinsurance contracts separately from other revenue and expenses
3. Insurance contract revenue for ceded reinsurance contracts separately for the building-block and the premium allocation approaches
4. Benefits and claims incurred (including for reinsurance) from contracts measured using the building-block would be presented separately from benefits and claims incurred from contracts accounted for using the premium allocation approaches
5. Interest accreted on the expected cash inflows in the respective revenue line item
6. Interest accreted on the expected cash outflows in interest expense.

Private Companies (e.g., Mutual Companies)

The board decided the following about private companies:

1. A nonpublic entity would consider the reference to segment reporting as part of the general aggregation criteria; however, nonpublic entities would be exempt from the requirement to provide specified disclosures by reportable segment.
2. A nonpublic entity would not be required to provide the insurance disclosures required for interim periods.

MARCH FASB MEETINGS

Treatment of Changes in Estimated Interest Crediting and Accretion Rates

The board affirmed its tentative decision from the November 2012 meeting that an insurer would not be required to disaggregate cash flows of a contract into those affected by returns from assets and those not affected by returns from assets when determining discount rates that reflect the characteristics of the contract's cash flows. The discount rates for the portfolio's cash flows should reflect the extent to which the amount of any estimated cash flows, subject to insurer discretion, are affected by asset returns.

This is an important decision since it appears that the IASB may be arriving at the opposite decision, a decision that would be extremely difficult to implement.

The board also decided the following for insurance contracts that are affected by asset returns:

1. Upon any change in expectations of the crediting rate used to measure the insurance contracts liability, an insurer would:
    a. Reset the interest accretion rates in a manner that recognizes any changes in estimated interest crediting and related ultimate expected cash flows on a level-yield basis over the remaining life of the contracts
    b. Recognize in net income the difference between the prior expected cash flows discounted at the prior interest accretion rates and the revised expected cash flows discounted at the reset interest accretion rates.
3. The degree to which the interest accretion rates for the portfolio are adjusted would reflect the

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relative value of the account balance to be credited and the extent that changes in expected amount to be credited to those account balances are the result of changes in expected asset returns.

4. An insurer would apply the tentative decision on accumulated other comprehensive income (AOCI) for non-asset-affected cash flows. That means an insurer would present as part of AOCI the difference between the insurance contracts liability recorded on the statement of financial position (using the current discount rate) and the amount the insurance contract liability would be if it were determined at the interest accretion rates.

Election of the Fair Value Option

Guarantees and Other Contingencies

The board decided to eliminate the fair value option election for guarantees and other contingencies accounted for in accordance with Topic 460, Guarantees, or contingencies accounted for in accordance with Topic 450, Contingencies, that will not be within the scope of the forthcoming proposed insurance contracts guidance.

The board decided that the effective date and transition provisions to eliminate the fair value option for these items would be consistent with the effective date and transition provisions for the proposed ASU, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.*

Other Miscellaneous Issues

Criteria to Account for Contracts under the Premium Allocation Approach

The board decided to remove the following criterion that, if met, would preclude an insurer from using the premium allocation approach.

> "Significant judgment is required to allocate the premium to the insurer's obligation to each reporting period."

Accounting for the Excess of the Insurance Liability Measurement over the Fair Value of the Insurance Contracts in a Business Combination

The board decided to record any excess of the asset and liability balances related to insurance contracts measured in accordance with the proposed guidance above the fair value of those assets and liabilities as a loss at the acquisition date.

Whether or Not to Include Expectations in the Liability for Remaining Coverage under the Premium Allocation Approach

The board decided to clarify that for contracts reported under the premium allocation approach, an insurer would not include expectations of future changes in coverage (for example, policyholder cancellations) in the cash flows for purposes of measuring the liability for remaining coverage or the gross premium receivable.

Recognition Point for Deferred Annuity Contracts

The board affirmed previous decisions about recognition point of insurance contracts and to include implementation guidance regarding recognition of deferred annuity contracts. This should be the same as the IASB decision reported above.

Treatment of Income Tax Payments and Receipts

The board decided to clarify in the implementation guidance that cash flows excluded from the measurement of the liability would include income tax payment obligations of the insurer even if the insurance contract permits the insurer to charge back those amounts to policyholders. However, any tax obligations that are incurred by the policyholder and are paid by the insurer in a fiduciary capacity would be included in the present value of fulfillment cash flows along with any amounts the insurer expects to receive from the policyholder related to those tax amounts.

* * * * *

The two boards currently intend to meet jointly toward the end of this year, after comments on their Exposure Drafts have been received and analyzed, to consider

whether a converged standard is still possible. I continue to hold out hope that they will conclude it is. I urge everyone who comments on either standard to make this their initial comment:

> *It is in the interest of all parties that the IASB and FASB make all possible efforts to produce a converged standard for accounting for insurance contract liabilities.*

Yet another reason why
Insurance accounting is too important to be left to the accountants!

FASB Disclosure Requirements

Among the disclosures the FASB will tentatively require are the following. A more complete list will be included in the Exposure Draft.

Disclosures about Liabilities:

1. A reconciliation of the opening and closing balance of the insurance liability (or asset) (BBA) and the liability for incurred claims (PAA).
2. Line items in the reconciliation of opening and closing balances that provide sufficient detail to understand:
    a. New business
    b. Cash flows
    c. Changes in assumptions
    d. Derecognition
    e. Time value of money.
3. The notes to the financial statements would explain the significant drivers of the changes in the insurance liability and liability for incurred claims.
4. Liability balance for business assumed in reinsurance transactions.

Information about the Single Margin:

1) A reconciliation of the opening and closing balance for the single margin disaggregated in a similar manner to the disaggregation of the reconciliation of the insurance liability that provides sufficient detail to understand:
    a) New margin with amounts attributable to expected acquisition costs separately identified
    b) Margin released
    c) Balance attributable to expected acquisition costs to be paid.
2) Amounts of revenue recorded in the period that arose from the single margin being released because of a portfolio turning onerous, disaggregated in a manner similar to how the insurer disaggregates the reconciliation of the liability.
3) The amount of the acquisition costs incurred but not yet amortized in the statement of comprehensive income (i.e., embedded in the single margin).
4) Furthermore, the board instructed the staff to include within the implementation guidance items that could be provided as part of the reconciliation.

Interest:

The amount of interest included in the revenue line item and the significant components of interest expense attributable to insurance contracts.

Reinsurance Receivable:

1) A reconciliation of opening and closing balances disaggregated in a similar manner to the disaggregation of the reconciliation of the insurance liability.
2) The balance of reinsurance receivable related to paid claims.
3) The amount the insurer records to the allowance as uncollectible in the period in a similar manner to the reconciliation of the opening and closing balance of the reinsurance receivable. Those amounts should be further disaggregated between those amounts related to credit and those related to disputes.
4) The amount of gains or losses arising from commutations of reinsurance agreements.

Other Disclosures:

1) Disaggregation of the amount recorded in the statement of comprehensive income during the period that results from a portfolio becoming onerous.
2) The balance of premiums received but not yet earned on the insurance component for contracts accounted for using the building-block approach.
3) The amount of premiums received allocated to the investment component during the period.
4) The nature of the key inputs used to measure the liability disaggregated by significant types of insurance.

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5) Information about compliance with separate insurance regulatory frameworks, including:
   a) The amount of minimum capital necessary to satisfy the insurer's regulatory requirements
   b) The amount of regulatory capital
   c) Any regulatory restrictions on the insurer's ability to pay dividends or principal and interest on loans or notes
   d) Whether a regulatory event would have been triggered had the insurer not used a permitted regulatory/statutory accounting practice.
6) The methods and assumptions for the unbundling of goods, services, or investment components, and the nature of the items being unbundled.

Discount Rates and Future Payments:

1. A table of expected cash outflows along with the corresponding weighted-average current discount rate and weighted-average interest accretion rate.
2. A disaggregation of the disclosure in a similar manner to the disaggregation of its reconciliation of the insurance liability.
3. The information in the following time bands:
   a. For BBA:
      i. Amounts and rates related to the first two 5-year time bands
      ii. Each of the next two 10-year time bands following the 10th year and up to the 30th year
      iii. The total for years following the 30th year after the reporting date.
   b. For PAA:
      i. Each of the first five years after the reporting date
      ii. The next two 5-year time bands following the first five years after the reporting date
      iii. The total for years following the 15th year after the reporting date.
4. Any additional information about amounts and rates within the time bands provided that affect the weighted average significantly.
5. A table of expected receipts from reinsurance receivables in the same manner and time bands as the related expected cash outflows along with the corresponding weighted-average current discount rates and weighted-average interest accretion rates.

Participating Policies:

1) The general criteria on which the participation features of the contracts are based and the amount that accrued to the benefit of the policyholders during the period due to those features.
2) For contracts in which the insurer's nondiscretionary obligation is contractually dependent on the performance of other assets or liabilities of the insurer or the performance of the insurer itself, and the contract does not qualify as a segregated fund arrangement:
   a) How participation features are measured (that is, what the participating features are based on) and what is included in the measurement of the liability (that is, the obligation of the insurer)
   b) If applicable, the quantitative amount of the adjustment to the gross obligation in (a) (that is, the measurement of the asset or liability on which the measurement of the liability is adjusted to) and whether the adjustment is recorded to profit or loss or to other comprehensive income.
3) The amount of expected dividends to policyholders not yet declared that are included in the measurement of the liability.

Reinsurance and Other Transactions:

The board decided that an insurer would disclose the significant differences between gross premiums ceded and net premiums ceded recorded in the statement of comprehensive income (that is, excluding the investment component).

The board decided that an insurer would disclose the following information about material transactions:

1. For material transactions and events during the reporting period for which there are no specific disclosure requirements, such as:
   a. The restructuring of the entity (for example, demutualization or re-domiciliation to another jurisdiction)
   b. Ceasing the writing of new business (for example, exiting a line of business or creating a closed block of business).
2. For those transactions the insurer should provide information that conveys the nature of the transaction and its effect on the insurer's financial statements. ■