Seeing Beyond Risk Canadian Institute of Actuaries Institut canadien des actuaires Voir au-delà du risque

Research Paper

IFRS Disclosure Requirements for Life Insurers

Committee on the Appointed/Valuation Actuary – IFRS Life Disclosure Subgroup

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Memorandum

To: All Life Insurance Practitioners

From: Tyrone G. Faulds, Chair
Practice Council

Arshil Jamal, Chair
Committee on the Appointed/Valuation Actuary

Ralph Ovsec, Chair
IFRS Life Disclosure Subgroup

Date: December 13, 2010

Subject: **Research Paper – IFRS Disclosure Requirements for Life Insurers**

For life insurers, the two primary implications of IFRS Phase I, which is due to be implemented in Canada on January 1, 2011, are related to the classification of contracts and enhanced disclosures in financial statements.

The IFRS Life Disclosure Subgroup, at the request of the Committee on the Appointed/Valuation Actuary, has drafted this research paper to

identify the actuarial disclosures that are relevant to life insurers,

analyze the impact of the actuarial disclosure requirements, including a comparison to current reporting under CICA, and

provide guidance for actuarial disclosure, including examples.

This research paper presents the actual IFRS disclosure requirements, followed by the subgroup's comments and suggestions along with illustrative examples of quantitative disclosures, where appropriate.

In accordance with the Institute's Policy on Due Process for the Adoption of Guidance Material Other than Standards of Practice, this research paper has been prepared by the IFRS Life Disclosure Subgroup for the Committee on the Appointed/Valuation Actuary, and has received approval for distribution from the Practice Council on November 25, 2010.

If you have any questions or comments regarding this research paper, please contact Ralph Ovsec, Chair, IFRS Life Disclosure Subgroup, at his CIA Online Directory address, ralph_ovsec@manulife.com.

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INTRODUCTION

IFRS Phase I will be implemented on January 1, 2011 in Canada. For life insurers, the two primary implications of IFRS are related to (i) the classification of contracts, and (ii) enhanced disclosures in financial statements. This research paper addresses actuarial financial statements disclosures required by IFRS.

The adoption of IFRS on January 1, 2011 will require comparisons with 2010. Thus, many insurers will begin to gather much of the information requirements during 2010. The goal of this research paper is to assist actuaries who will be working with insurers in preparing the IFRS disclosures in the information-gathering process during 2010 and 2011.

The specific objectives of this research paper are to

identify the actuarial disclosures that are relevant to life insurers,

analyze the impact of the actuarial disclosure requirements, including a comparison to current reporting under CICA, and

provide guidance for actuarial disclosure, including examples.

Financial reporting is the responsibility of the insurer. Each insurer will choose to make disclosure in a manner appropriate to its own organization's style and the characteristics of its operations.

Much of the information, both qualitative and quantitative, that will be required by IFRS is already available in the Appointed Actuary's report or the supporting documentation. However, this information may not be in a format appropriate for the required disclosure.

Disclosure requirements for life companies under IFRS include requirements for both insurance contracts (IFRS 4) and investment contracts (IFRS 7). In this paper, the actual IFRS disclosure requirements are presented in a box. Under the box, we have provided our comments and suggestions along with illustrative examples of quantitative disclosures, where appropriate.

An additional section is included to cover areas where consideration could be given to continuing with current CICA disclosure until IFRS Phase II.

One of the more significant disclosure changes under IFRS is the requirement for more separate disclosure of reinsurance ceded information. Reporting on every aspect of the liability on a gross/ceded/net basis is likely to add little value to the user, and multiplies the information disclosed, potentially obscuring the important messages. In particular, liabilities under CALM are fundamentally set on a net basis, and the gross numbers are derived on a necessarily approximate basis, thereby making such information less meaningful. There are situations where the discussion and disclosure of reinsurance is important and/or specifically required under IFRS. In such situations more complete disclosure would be appropriate and these situations are discussed under the appropriate sections of this document. Otherwise, the subgroup suggests that much of the liability disclosure be on a net of reinsurance basis so long as liabilities are reported under CALM (i.e., IFRS Phase I).

For ease of reading, this document refers to annual reporting; all concepts presented are equally applicable to interim reporting.

The appendix lists supplemental IFRS guidance for each topic. In addition, a cross-reference to existing CICA guidance is provided. It may also be useful for readers to review financial statements of publicly-traded European companies, which have already reported under IFRS.

IFRS 4 – INSURANCE CONTRACTS

37(a) Accounting Policies for Insurance Contracts

36	An insurer shall disclose information that identifies and explains the amounts in its financial statements arising from insurance contracts.
37	To comply with paragraph 36, an insurer shall disclose:
37(a)	its accounting policies for insurance contracts and related assets, liabilities, income and expense.

As the focus of these disclosures is accounting policies, it is anticipated that the accountants preparing the insurer's financial statements will have primary responsibility for these disclosures. However, the actuary may want to provide input, or may be asked for input.

These disclosures will likely consist of a qualitative description without requirements for quantitative support.

In the disclosures responding to 36 and 37(a), we expect that insurers would consider including discussions of the following items.

Description of the contract classification: the disclosures will describe the insurer's conclusions on the classification of its products. The actuary is referred to the CIA's educational note Classification of Contracts under International Financial Reporting Standards (June 2009) for a discussion of this topic.

Description of the accounting policies used for:

premiums,

fees,

acquisition costs,

claims incurred,

claims handling cost,

provision for adverse deviations (PfAD),

liability adequacy test,

adjustment for risk and uncertainty,

embedded options and guarantees,

discretionary participation features,

salvage and subrogation,

reinsurance,

business combinations and guarantee funds arrangement, and

judgment (example: mention that CALM is the valuation methodology for insurance contracts).

Not all categories are necessarily applicable to all companies. There may be other categories that are equally relevant.

37(b) Breakdown of Liability Balances

> 37(b) the recognised assets, liabilities, income and expense (and, if it presents its statement of cash flows using the direct method, cash flows) arising from insurance contracts. Furthermore, if the insurer is a cedant, it shall disclose:
>
> (i) gains and losses recognised in profit or loss on buying reinsurance; and (ii) if the cedant defers and amortises gains and losses arising on buying reinsurance, the amortisation for the period and the amounts remaining unamortised at the beginning and end of the period.

With respect to 37(b), companies will likely be able to continue the same level of breakdown as is currently disclosed. This is consistent with existing CICA practice, and appears to meet IFRS requirements as well.

If reinsurance is not material, then it may be appropriate to report the liabilities net of reinsurance, with one line quantifying the value of the reinsurance asset.

The subgroup considered the specific disclosure about gains or losses recognized on purchase of reinsurance. The subgroup felt this to be an accounting disclosure and, therefore, out of scope for this subgroup. However, in the interest of providing some guidance, the subgroup felt that this separate disclosure would apply only to purchase of reinsurance on in-force blocks (that is, blocks that did not have reinsurance at issue, or where the reinsurance amount increased as a result of this transaction).

Below is an illustrative example of the disclosure.

Insurance Contracts

Reporting Year 2011

Liabilities	Canada	United States	Asia	Other	Total
Individual participating life	$				
Individual non-participating life					
Group life					
Individual annuities					
Group annuities					
Health insurance					
Total actuarial liabilities					
Add: Other policy liabilities					
Actuarial liabilities and other policy liabilities	$	$	$	$	$

Reinsurance Assets	Canada	United States	Asia	Other	Total
Individual participating life	$	$	$	$	$
Individual non-participating life					
Group life					
Individual annuities					
Group annuities					
Health insurance					
Total actuarial reinsurance assets					
Add: Other reinsurance assets					
Total reinsurance assets	$	$	$	$	$

Reporting Year 2010

Liabilities	Canada	United States	Asia	Other	Total
Individual participating life	$				
Individual non-participating life					
Group life					
Individual annuities					
Group annuities					
Health insurance					
Total actuarial liabilities					
Add: Other policy liabilities					
Actuarial liabilities and other policy liabilities	$	$	$	$	$

Reinsurance Assets	Canada	United States	Asia	Other	Total
Individual participating life	$	$	$	$	$
Individual non-participating life					
Group life					
Individual annuities					
Group annuities					
Health insurance					
Total actuarial reinsurance assets					
Add: Other reinsurance assets					
Total reinsurance assets	$	$	$	$	$

37(c) Assumptions

> 37(c) the process used to determine the assumptions that have the greatest effect on the measurement of the recognised amounts described in (b). When practicable, an insurer shall also give quantified disclosure of those assumptions.

This section would discuss the following elements:

types of assumptions that are used,

descriptor of each assumption,

how assumptions are delineated (sex, smoker, duration),

how those assumptions are determined (internal studies, industry, pricing),

frequency of review of those assumptions,

how changes are made,

purpose of margins,

how those margins are set,

reflection of income taxes and tax timing differences, and

calculation of reinsurance asset.

Further, companies reporting using the CALM approach would provide an explanation of how changes in credit spreads affect after-tax income.

Illustrative example:

Under Canadian GAAP, actuarial liabilities are determined using the Canadian Asset Liability Method, or CALM, as determined by the Canadian Institute of Actuaries (CIA). Liabilities are set equal to the balance sheet value of the assets that would be required to support them.

Under CALM, changes in the market values of assets supporting liabilities due to fluctuating credit spreads are offset in the actuarial liabilities, except to the extent they are the result of changes in credit ratings, i.e., in those situations the liabilities will be increased/reduced to reflect the higher/lower expected default rates associated with the changes in ratings.

In calculating the actuarial and other policyholder liabilities, the actuary is required to make assumptions about future mortality, morbidity, policyholder behaviour, expenses and taxes, investment returns, policyholder dividends, reinsurance and currency over the life of the product. CALM also requires assumptions about future asset purchases when projected cash inflows exceed cash outflows, and assumptions about asset divestitures (or asset borrowing) when projected liability cash flows exceed inflows.

These assumptions are made up of two components, best estimate of future experience and margins for uncertainty. Best estimate assumptions represent the most likely outcome as determined by the actuary based on company and industry experience, and other external factors where appropriate. Margins for uncertainty are applied to the best estimate assumptions to allow for misestimation of those best estimate assumptions and for the potential deterioration from those best estimates. Ranges for margins for uncertainty are prescribed by the CIA in its actuarial Standards of Practice. The actuary determines the appropriate margins based on the risk characteristics of the business. These margins vary by assumption and by type of business.

Margins for uncertainty are released into income as the risk for misestimation reduces over time. They represent, therefore, deferred profits so long as actual experience is equal to, or better than, the expected experience.

Each assumption and margin is reviewed annually for continued appropriateness. Where changes are made to assumptions (see section 37(d)), the full impact is recognized in income immediately.

The reinsurance asset represents the benefit derived from reinsurance arrangements in force at the balance sheet date. The reinsurance asset is measured consistently with the amounts associated with the insured insurance contracts and in accordance with the terms of each reinsurance contract.

Each company’s document could then go into more specific details.

37(d) Effect of Changes in Assumptions

37(d)	the effect of changes in assumptions used to measure insurance assets and insurance liabilities, showing separately the effect of each change that has a material effect on the financial statements.

Rather than disclose the effect of assumption changes on gross liabilities, the subgroup feels that the effect on shareholder income is more meaningful. This is not inconsistent with the manner in which other IFRS reporters disclose the effect of valuation assumption changes. The effect of assumption changes for the reinsurance asset is already disclosed separately (for all assumption changes combined) in Section 37(e), under reinsurance asset roll-forward.

If changes in assumptions have no material effect on the policy liabilities from one valuation date to the next, the disclosures could simply state that this is the case.

Qualitative discussions for each material change could include

- discussion of each change,
- reason for change,
- impact of each change, and
- observed trends.

Illustrative examples:

Two alternative methods of presentation are shown. Option 1 provides only net shareholder post-tax income effect. Option 2 provides net shareholder post-tax effect as well as the effect on gross and net liabilities. The assumptions disclosed are an example and the assumptions disclosed would be specific to the circumstances of the company.

OPTION 1

Insurance Contracts	Shareholder Post-tax Income	
	2011	2010
Mortality	xxx	xxx
Morbidity	xxx	xxx
Policyholder behaviour	xxx	xxx
Expense	xxx	xxx
Investment returns	xxx	xxx
Methodology and other	xxx	xxx
TOTAL	xxx	xxx

OPTION 2

Insurance Contracts	Impact – 2011			Impact – 2010		
	Gross Liabilities	Net Liabilities	Shareholder Post-tax Income	Gross Liabilities	Net Liabilities	Shareholder Post-tax Income
Mortality	xxx	xxx	xxx	xxx	xxx	xxx
Morbidity	xxx	xxx	xxx	xxx	xxx	xxx
Policyholder behaviour	xxx	xxx	xxx	xxx	xxx	xxx
Expense	xxx	xxx	xxx	xxx	xxx	xxx
Investment returns	xxx	xxx	xxx	xxx	xxx	xxx
Methodology and other	xxx	xxx	xxx	xxx	xxx	xxx
TOTAL	xxx	xxx	xxx	xxx	xxx	xxx

37(e) Roll-forward of Insurance Contracts

> 37(e) reconciliations of changes in insurance liabilities, reinsurance assets and, if any, related deferred acquisition costs.

Disclosure of the movement in insurance contract liabilities (i.e., the roll-forward of the balance from the beginning of the year to the end of the year) would be shown separately for the liabilities net of reinsurance recoverables and the reinsurance asset using the line items required by current CICA standards for the net policy liability movement analysis.

A roll-forward of the reinsurance asset would also be disclosed since it is specifically required under IFRS 4, 37(e), but could reflect fewer line items than are used for the movement in net liabilities. CALM valuation is performed on a net basis, and although a split of liabilities into gross and net using a reasonable methodology can be performed, further detailed disclosures based on this high-level split may not provide meaningful information.

Illustrative example:

Roll-forward of Insurance Contract Liabilities Net of Reinsurance Recoverables

	2011	2010
Net insurance contract liabilities Jan 1		
Change in liabilities on in-force		
Liabilities arising from new policies		
Assumption changes		
Increase in net liabilities		
Net liabs before the following:		
Acquisition/disposition		
Effect of changes in exchange rates		
Net insurance contract liabilities Dec 31		

Roll-forward of Reinsurance

	2011	2010
Reinsurance asset Jan 1		
Change in asset on in-force		
Asset arising from new policies		
Assumption changes		
Increase in reinsurance asset		
Reinsurance asset before the following:		
Acquisition/disposition		
Effect of changes in exchange rates		
Change in reinsurance asset impairment provisions		
Reinsurance asset Dec 31		

39(a) Risk Objectives and Policies for Managing Risk

38 An insurer shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from insurance contracts.

39 To comply with paragraph 38, an insurer shall disclose:

39(a) its objectives, policies and processes for managing risks arising from insurance contracts and the methods used to manage those risks.

39(b) [deleted]

These disclosures provide a qualitative description of the main risks and of the company's risk management strategy. The approach is similar to the current Canadian practice. No quantitative tables are required.

The company would consider including discussions of the definition of the risk and a description of the risk management strategy in its qualitative disclosures.

Examples of risks that would be considered are

longevity risk,

mortality and morbidity risk,

market risk,

persistency risk,

expense risk,

product design and pricing risk, and

catastrophe.

39(c)(i) Insurance Risk – Sensitivities

39(c) information about *insurance risk* (both before and after risk mitigation by reinsurance), including information about: (i) sensitivity to insurance risk (see paragraph 39A).

39A To comply with paragraph 39(c)(i), an insurer shall disclose either (a) or (b) as follows: (a) a sensitivity analysis that shows how profit or loss and equity would have been affected if changes in the relevant risk variable that were reasonably possible at the end of the reporting period had occurred; the methods and assumptions used in preparing the sensitivity analysis; and any changes from the previous period in the methods and assumptions used. However, if an insurer uses an alternative method to manage sensitivity to market conditions, such as an embedded value analysis, it may meet this requirement by disclosing that alternative sensitivity analysis and the disclosures required by paragraph 41 of IFRS 7.

(b) qualitative information about sensitivity, and information about those terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the insurer's future cash flows.

Disclosures regarding sensitivity may be either quantitative or qualitative. It is expected that disclosures responding to the requirements in 39(c) and 39A will be prepared primarily by chief risk officers, risk managers, and chief financial officers of insurers. However, actuaries may play an important role in providing quantitative analyses for sensitivity testing purposes.

The illustrative example below is similar to what was recommended as part of general CGAAP sensitivity disclosures in the research paper Financial Statement Policy Liability Sensitivities Disclosure for Life and Health Insurers. Companies may consider expanding the disclosure based on markets, especially where results are non-linear.

For consistency with companies that already report on an IFRS basis, the effect of a change in credit rating of existing assets could also be shown. This could be represented, for instance, as a one-notch reduction on 10 percent of the fixed income portfolio. This would also line up with the shock sensitivity that is applied to equity and real estate in the table above.

The after-tax income effect resulting from changes in assumptions for insurance contract liabilities is shown in the table below. A positive sign indicates an increase to income and therefore an increase in surplus.

Impacts are in $millions

Assumption	Change	After-tax Income Impact	
		12/31/2011	12/31/2010
Mortality – insurance products	+2%	$XXX	$XXX
Mortality – annuity products	-2%	$XXX	$XXX
Morbidity	5% adverse	$XXX	$XXX
Expenses (maintenance)	+5%	$XXX	$XXX
Policy termination rates	10% adverse	$XXX	$XXX
Interest			
Immediate parallel shift at all points on yield curve	+100 bps	$XXX	$XXX
	- 100 bps	$XXX	$XXX
Immediate parallel shift persisting for one year	+100 bps	$XXX	$XXX
	- 100 bps	$XXX	$XXX
Equity and Real Estate			
Future annual returns	+100 bps	$XXX	$XXX
	-100 bps	$XXX	$XXX
Immediate change in market value	+10%	$XXX	$XXX
	-10%	$XXX	$XXX

39(c)(ii) Insurance Risk – Concentration

39(c)	(ii) concentrations of insurance risk, including a description of how management determines concentrations and a description of shared characteristic that identifies each concentration (e.g., type of insured event, geographical area, or currency).

A qualitative description could be included. Quantitative information could be provided but is not required. Companies could consider including discussion of the concentrations relevant to the business written by the company and how the risks are mitigated (for example by diversification or by regular tracking of risk concentrations) in its qualitative disclosure.

Quantitative disclosure could take the form of disclosure of historical experience from large catastrophes and distribution of business by geography, market, etc.

See also IFRS 7, 34(c) later in this document.

39(c)(iii) Insurance Risk – Claims

> 39(c) (iii) actual claims compared with previous estimates (i.e., claims development). The disclosure about claims development shall go back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payments, but need not go back more than ten years. An insurer need not disclose this information for claims for which uncertainty about the amount and timing of claims payments is typically resolved within one year.

For "general insurance" there is a requirement to show claims development tables both gross and net of reinsurance. It does not apply to business, such as life insurance and annuities, where the certainty regarding the amount and timing of claims is well known after one year.

Since Canadian companies routinely transact "non-life" business (specifically health insurance), each company will need to review its claims liabilities to establish whether there are any pockets that might, theoretically, require disclosure under this section and then determine whether they are sufficiently material to warrant their disclosure.

This disclosure would not normally be required for life insurance. IFRS 4, Basis for Conclusion 220 says "it is unlikely that many life insurers would need to give this disclosure". Life insurance claims are well established with respect to amount and timing of payment. Annuity business and disability business are also excluded from such presentation because the amount is well known (it is contractual), and the timing can also be predicted with a high degree of certainty (experience studies and mortality/morbidity tables are used to project future payments).

39(d) Credit Risk, Market Risk, Liquidity Risk

> 39(d) information about credit risk, liquidity risk and market risk that paragraphs 31–42 of IFRS 7 would require if the insurance contracts were within the scope of IFRS 7. However:
>
> (i) an insurer need not provide the maturity analyses required by paragraph 39(a) and (b) of IFRS 7 if it discloses information about the estimated timing of the net cash outflows resulting from recognised insurance liabilities instead. This may take the form of an analysis, by estimated timing, of the amounts recognised in the statement of financial position.
>
> (ii) if an insurer uses an alternative method to manage sensitivity to market conditions, such as an embedded value analysis, it may use that sensitivity analysis to meet the requirement in paragraph 40(a) of IFRS 7. Such an insurer shall also provide the disclosures required by paragraph 41 of IFRS 7.

This subgroup feels that with very few exceptions, disclosure of asset-related information is outside its scope. Within its scope might be information about counterparty risk, since this is relevant to disclosure of gross and net liabilities.

Refer also to Section on IFRS 7, paragraphs 31–42.

Liquidity risk profile, while already required under CICA 3862, is also required under IFRS 4. This disclosure takes the form of projecting liability outflows for periods of years.

Illustrative examples of the format for this disclosure:

Example 1:

	2011	2012	2013	2014–2015	2016+
Life insurance					
Annuity					
Disability					
Other					
Total					

Example 2:

	2011	2012	2013	2014–2015	2016+
Canada					
US					
Asia					
Other					
Total					

Example 3:

	Within 1 year	1 to 3 years	3 to 5 years	> 5 years
Total				

Yet a fourth presentation could be to split by currency.

39(e) Embedded Derivatives

39(e) information about exposures to market risk arising from embedded derivatives contained in a host insurance contract if the insurer is not required to, and does not, measure the embedded derivatives at fair value.

For embedded derivatives that are not measured at fair value, there is a requirement under IFRS to provide information about market risk exposure. More specifically, companies are required to provide information about exposures to market risk arising from embedded derivatives contained in a host insurance contract if the insurer is not required to, and does not, measure the embedded derivatives at fair value.

> A qualitative description could be included. Quantitative information could be provided but is not required. In their qualitative disclosure, companies could consider including discussion of a description of the embedded derivatives and commentary on the risks and risk mitigation techniques used, and information about the levels where these exposures start to have a material effect on the insurer's cash flows.

Quantitative disclosure could take the form of sensitivity analysis and fair value of the embedded derivative.

Information about embedded derivatives that are closely related to host contracts might be considered explicitly in the discussion of the risks of the host contract rather than being noted separately.

IFRS 7 – INVESTMENT CONTRACTS AND EMBEDDED DERIVATIVES

Except where otherwise noted, the disclosures below apply to investment contracts and embedded derivatives in insurance contracts which are separately measured and accounted for.

8 Carrying Amounts of Financial Liabilities

8 The carrying amounts of each of the following categories, as specified in IFRS 9 or IAS 39, shall be disclosed either in the statement of financial position or in the notes:

…

(e) financial liabilities at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition, and (ii) those that meet the definition of held for trading in IAS 39.

(f) financial liabilities measured at amortised cost.

Companies may consider a level of breakdown consistent with that used for insurance contracts under IFRS 4 37(b).

Illustrative example:

			2011			
	Canada	US	Asia	Other	TOTAL NET	Reinsurance included in Net Liabilities
Individual annuities	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx
Group annuities	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx
Total actuarial liabilities	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx
Other policyholder liabilities	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx
Total actuarial and other policyholder liabilities	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx

Included in the above table are contracts with discretionary participating features; the fair value of liabilities thereof is $xxx.

Included in the above table are contracts without discretionary participating features; the amortized cost thereof is $xxx, and the fair value estimate of liabilities thereof is $xxx.

	2010					
	Canada	US	Asia	Other	TOTAL NET	Reinsurance included in Net Liabilities
Individual annuities	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx
Group annuities	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx
Total actuarial liabilities	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx
Other policyholder liabilities	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx
Total actuarial and other policyholder liabilities	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx

Included in the above table are contracts with discretionary participating features; the fair value of liabilities thereof is $xxx.

Included in the above table are contracts without discretionary participating features; the amortized cost thereof is $xxx, and the fair value estimate of liabilities thereof is $xxx.

Roll-forward for Investment Contracts

A roll-forward for investment contracts with DPF is required under IFRS 4 37(e). Although not required by IFRS, it would make sense to show the movement for investment contracts without DPF, given that similar information is already disclosed under CICA.

Illustrative example:

Investment Contracts without DPF – Measured at Fair Value

	2011	2010
Liabilities Jan 1		
Chg in liabilities on in-force		
Liabilities arising from new policies		
Assumption changes		
Increase in act'l liabilities		
Liabilities before the following:		
Acquisition/disposition		
Effect of changes in exch rates		
Liabilities Dec 31		
Other policy liabilities		
Total liabilities Dec 31		

Investment Contracts without DPF – Measured at Amortized Cost

	2011	2010
Opening		
New business deposits		
Renewal deposits		
Interest		
Withdrawals		
Fees		
Other		
Currency		
Closing		

Investment Contracts with DPF

		2011	2010
Q407	Liabilities Jan 1		
	Chg in liabilities on in-force		
	Liabilities arising from new policies		
	Assumption changes		
	Increase in liabilities		
	Liabilities before the following:		
	Acquisition/disposition		
	Effect of changes in exchange rates		
	Liabilities Dec 31		
	Other policy liabilities		
Q408	Total liabilities Dec 31		

21 & 27 Accounting Policies & Methods and Assumptions

21 In accordance with paragraph 117 of IAS 1 *Presentation of Financial Statements* (as revised in 2007), an entity discloses, in the summary of significant accounting policies, the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements.

27 An entity shall disclose the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities.

A qualitative description would be included. No quantitative tables are required.

The following qualitative information could be provided

description of the contract classification,

detailed description of the nature of contracts, determination of fair value where appropriate,

disclosure of where fair value could not be estimated and why,

comparison of carrying value to fair value where appropriate,

disclosure of sufficient information about those contracts that are not fair valued to allow an informed third party to make judgement calls about potential fair value, and

description of the accounting policies used for

premiums,
fees,
claims,
reinsurance,
determining an impairment loss, and
judgment made in the process of applying the entity's accounting policies.

Qualitative discussions for each material change in assumptions could be included covering

discussion of each change,

reason for change,

impact of each change, and

observed trends.

Illustrative example of quantitative disclosure of method or assumption changes which could be included to parallel insurance contract disclosure:

	Impact – 2011		Impact – 2010	
	Net Liabilities	Shareholder Post-tax Income	Net Liabilities	Shareholder Post-tax Income
Mortality	xxx	xxx	xxx	xxx
Morbidity	xxx	xxx	xxx	xxx
Policyholder behaviour	xxx	xxx	xxx	xxx
Expense	xxx	xxx	xxx	xxx
Investment returns	xxx	xxx	xxx	xxx
Methodology and other	xxx	xxx	xxx	xxx
TOTAL	xxx	xxx	xxx	xxx

25 Fair Value Compared to Carrying Value

25 Except as set out in paragraph 29, for each class of financial assets and financial liabilities (see paragraph 6), an entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount.

An entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount.

Investment contract fair values are determined by using valuation techniques, such as discounted cash flow methods and stochastic modelling. A variety of factors are considered in these valuation techniques, including time value of money, volatility, policyholder behaviour, servicing cost and fair values of similar instruments.

Fair value disclosure is not required for DPF if that fair value cannot be measured reliably (paragraph 29c). However, a description of why there is no reliable measure of fair value could be provided.

Illustrative example:

	2011		2010	
	Carrying value	Fair value	Carrying value	Fair value
	$000	$000	$000	$000
Investment contracts measured at amortised cost	xxx	xxx	xxx	xxx

31 Risk Qualitative and Quantitative Disclosure

> 31 An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.

This section overlaps with IFRS 4 (38). There it was noted that those risks are outside the scope of this subgroup, and are better described in a company's risk management section.

Paragraphs 31 to 42 cover credit risk, market risk, and liquidity risk (which apply to insurance contracts as well). The subgroup feels that disclosure of asset-related information is outside the scope of this subgroup.

IFRS 7 requires both qualitative and quantitative disclosure of credit, liquidity and market risks. IFRS 4 requires the same disclosure, with a couple of small exceptions as indicated below, for insurance contracts. IG 62-65 elaborates to suggest disclosing the interaction of lapse behaviour and participation features with interest rate risk and the importance of credit risk for reinsurance contracts and credit risk assumed under credit insurance contracts and financial guarantees.

It is suggested that a qualitative discussion of the types of risk, risk management policy and risk mitigating factors be included.

Credit

> reinsurance counterparty risk — consider discussion of split of risk by reinsurers' credit rating and/or maximum exposure to one counterparty.

Liquidity

table of obligations split by due date (probably comparable to current contractual obligations display).

Currency

sensitivity to adverse change in exchange rates.

Company practices with regard to these items currently seem quite consistent and also in line with IFRS guidance.

34 (c) Concentration Risk for Insurance and Investment Contracts

34c	For each type of risk arising from financial instruments, an entity shall disclose: c) concentrations of risk if not apparent from (a) and (b).

A qualitative description could be included either separately or as part of the risk exposure disclosure. Quantitative information on the concentration risk could be provided separately if it is not apparent from the risk exposure quantitative disclosure. Companies could consider including discussion in its qualitative disclosure of how management determines concentrations and of the shared characteristic that identifies each concentration.

Qualitative disclosure could take the form of disclosure of the risk exposure associated with all the financial instruments sharing that characteristic.

OTHER DISCLOSURES

There are certain disclosures that currently exist in CICA requirements (but not in IFRS) that the subgroup suggests be maintained, at least through IFRS Phase I, where (net) actuarial and other policy liabilities are reported using a CALM methodology.

Assets Supporting Liabilities

The table below is an example of the current disclosure of the assets which back insurance and investment contract liabilities.

December 31, 2011	Participating Policies	Non-participating Liabilities Canada	US	Asia	Other	Total
Cash	xxx	xxx	xxx	xxx	xxx	xxx
Bonds	xxx	xxx	xxx	xxx	xxx	xxx
Mortgage loans	xxx	xxx	xxx	xxx	xxx	xxx
Public and private equity	xxx	xxx	xxx	xxx	xxx	xxx
Real estate	xxx	xxx	xxx	xxx	xxx	xxx
Other	xxx	xxx	xxx	xxx	xxx	xxx
Total assets	xxx	xxx	xxx	xxx	xxx	xxx
Total insurance and investment contract liabilities	yyy	yyy	yyy	yyy	yyy	yyy

December 31, 2010	Participating Policies	Non-participating Liabilities Canada	US	Asia	Other	Total
Cash	xxx	xxx	xxx	xxx	xxx	xxx
Bonds	xxx	xxx	xxx	xxx	xxx	xxx
Mortgage loans	xxx	xxx	xxx	xxx	xxx	xxx
Public and private equity	xxx	xxx	xxx	xxx	xxx	xxx
Real estate	xxx	xxx	xxx	xxx	xxx	xxx
Other	xxx	xxx	xxx	xxx	xxx	xxx
Total assets	xxx	xxx	xxx	xxx	xxx	xxx
Total insurance and investment contract liabilities	yyy	yyy	yyy	yyy	yyy	yyy

Provision for Credit Losses

Section 27 of CICA AcG8 contains a requirement to disclose the extent to which expected future investment yields, as incorporated into the computation of policy liabilities, have been reduced by provisions for credit losses. There is also a requirement to disclose the amount of any additional provisions for cyclical credit losses.

The current disclosure by some companies takes the form of the total amount, in dollar terms, incorporated into the liabilities as provision for credit losses.

It is suggested that companies continue their current disclosure practice for this item during IFRS Phase I.

APPENDIX

IFRS 4 Ref.	Description	Supplemental IFRS Guidance	Cross reference to CICA Guidance
37(a)	Accounting Policies For Insurance Contracts	IG 17-18 CIA 209066	AcG 8, 12-13
37 (b)	Breakdown Of Liability Balances	IAS1 IFRS 8 IG 19-30 IASP 12 4.3.2	AcG 8, (9) AcG 8, 29-30
37(c)	Assumptions	IG 31-33 IASP 12 4.3.2	1508
37(d)	Effect Of Changes In Assumptions	IG 34-36 IASP12 4.3.4	AcG 8, 25
37 (e)	Roll-forward Of Insurance Contracts	IG 37-40 IASP 12 4.3.5	AcG 8, 24-25
39(a)	Risk Objectives And Policies For Managing Risk	IG 41-50 IASP 12 4.4.1	
39(c)(i)	Insurance Risk – Sensitivities	IG 50-54 IASP 12 4.4.2	1508 AcG 8: 16, 19-23, 31 CIA 209130
39(c)(ii)	Insurance Risk – Concentration	IG 55-58 IASP 12 4.4.2.2	
39(c)(iii)	Insurance Risk – Claims	IG 60-61 IASP 12 4.4.2.3	
39(d)	Credit Risk, Market Risk, Liquidity Risk	IG 62-65 IASP 12 4.4.3	3862 AcG 8: 26-27, 31
39(e)	Embedded Derivatives	IG 66-70 IASP 12 4.4.5	

IFRS 7 Ref.	Description	Supplemental IFRS Guidance	Cross reference to CICA Guidance
8	Carrying Amounts Of Financial Liabilities		AcG 8, (9) AcG 8, 29-30
N/A	Roll-forward For Investment Contracts Without DPF		AcG 8, 24-25
IFRS 4 39 (e)	Roll-forward For Investment Contracts With DPF		AcG 8, 24-25
21 & 27	Accounting Policies And Methods And Assumptions		AcG 8: 12-13, 15-18
25	Fair Value Compared To Carrying Value		
31	Risk Qualitative And Quantitative Disclosure		AcG 8: 26-27, 31
34 c)	Concentration Of Risk For Insurance And Investment Contracts		

IFRS Reference	Description		Cross reference to CICA Guidance
N/A	Assets Supporting Liabilities		AcG 8, 11
N/A	Provision For Credit Losses		AcG 8, 27