



**Exposure Draft**

**Educational Monograph**

**Risk Adjustments for Financial  
Reporting of Insurance Contracts  
under International Financial  
Reporting Standards No. X**

Comments to be received by February 5, 2017

November 7, 2016

This Exposure Draft of an Educational Monograph on “Risk Adjustments for Financial Reporting of Insurance Contracts under International Financial Reporting Standards No. X” is being exposed by the International Actuarial Association for comment. The reference to “X” in IFRS No. X is a placeholder for the actual number to be assigned by the IASB when the final standard is approved. Please note that the Exposure Draft may be modified in the light of the comments received before being issued in final form. Comments on the Exposure Draft should be submitted in writing to be received on or before February 5, 2017. Those who respond are requested to forward their comments by email to the IAA addressed to Christian Levac, Director of Communications and Membership [[christian.levac@actuaries.org](mailto:christian.levac@actuaries.org)].

All responses will be forwarded to the IAA Ad hoc Project Oversight Group (APOG) of the Insurance Accounting Committee responsible for the development of this monograph; the APOG is chaired by Dave Finnis. The responses will also be placed on the public record on the IAA website unless the responder requests confidentiality.

Since this is an Exposure Draft, it is subject to significant revision. Due to copyright requirements, please do not reproduce or circulate the draft monograph outside your organization. The document can be accessed by others interested in reviewing it through the following link:

[http://www.actuaries.org/CTTEES\\_ACTSTD/monograph\\_review.cfm](http://www.actuaries.org/CTTEES_ACTSTD/monograph_review.cfm)

You will be prompted to enter a password (the password is supplied on the webpage). You may save the document to your computer. If you have any difficulties accessing the document, please contact Christian Levac, Director of Communications and Membership [[christian.levac@actuaries.org](mailto:christian.levac@actuaries.org)].

A handwritten signature in black ink, appearing to read "Christian Levac", written in a cursive style.

Christian Levac  
Director of Communications and Membership

## Introduction

### Why is the International Actuarial Association publishing this Exposure Draft?

An important strategic objective of the International Actuarial Association (IAA) is to facilitate the use and expansion of the scientific knowledge and skills of the actuarial profession.

Risk and uncertainty are key factors that actuaries consider in a wide range of practice. Inclusion in general purpose financial reporting is no exception. In the measurement of the liabilities of insurance contracts, the principle that the liabilities should reflect the risk and uncertainty associated with the effect of the obligations and rights provided in the insurance contracts is firmly established in many countries. Nevertheless, the methods of reflecting them are still evolving.

The monograph explains the application of risk and uncertainty to the measurement of the liability of insurance contracts in the context of general purpose accounting as adopted by the International Accounting Standards Board (IASB). Although actuarial literature and regulation around the world are full of examples of methods used to quantify risk and uncertainty, only a handful of financial reporting requirements in a limited number of small jurisdictions currently require an explicit adjustment for risk of the type contemplated in the upcoming revision to the existing IFRS 4. These applications call for more refined and explicit techniques than some actuaries have historically applied.

We note that the revised IFRS standard on Insurance Contracts has yet to be finalized. The current draft of the monograph is therefore reacting to the status of IFRS development as appears in the June 2013 Exposure Draft together with our understanding of decisions prompted by subsequent IASB Board discussion. The current draft of the monograph will of course not reflect the final provisions of the new IFRS on Insurance Contracts that are not currently foreseen.

The (IAA) is an association of national actuarial associations. Our 68 Full Member actuarial associations represent more than 95% of all actuaries practicing around the world. The IAA promotes high standards of actuarial professionalism across the globe and serves as the voice of the actuarial profession when dealing with other international bodies on matters falling within or likely to have an impact on the areas of expertise of actuaries.

This monograph forms an important part of the IAA's research and educational objectives, to facilitate and provide useful educational material that is accessible to actuaries and other professionals everywhere.

The comments received in response to this exposure draft will provide essential input to the preparation of the final monograph to be published next year.

## Questions for the respondents

We are seeking both general and specific comments on this draft monograph. We encourage you to cite examples that help illustrate your points. If applicable, please be specific as to the issues and location in the Exposure Draft to which your comments refer.

### General Comments

We welcome your overall reactions to the monograph, including your assessment as to the clarity of the material presented and how effectively the concepts are communicated.

### Specific Comments

1. **Technical Content.** The monograph contains detail of the techniques and approaches used in quantifying risk adjustments, based on current practices around the world and the authors' understanding of the future IFRS requirements.
  - a. Is the breadth and depth of detail appropriate for the monograph?
2. **Qualitative Approaches.** Although qualitative approaches are covered by the monograph in Chapter 5) the coverage is relatively light. The monograph is mainly focused on reflecting "established practice" and it is thought that qualitative approaches to risk adjustment are often used. Is this position appropriate for the Monograph?  
*(Note: The IAA is also planning the provision of guidance through a separate International Actuarial Note (IAN) on Risk Adjustment)*
3. **Risk Mitigation.** The chapter on risk mitigation (Chapter 6) is focused on the special financial reporting requirements for outgoing (ceded) reinsurance transactions. Other risk mitigation approaches are not discussed in detail. Such other risk mitigation features generally directly affect the fulfillment cash flows arising from insurance contracts. Should the monograph include greater details regarding how other risk mitigation techniques are taken into account (e.g., participation features, premium adjustments) or is the current scope of this chapter sufficient for educational purposes?
4. **Balance of Different Approaches.** The monograph relies heavily on actions taken to support the Cost of Capital Approach for the discussions of Validation (Chapter 7) and Re-measurement of Risk (Chapter 8). Is this reasonable?
5. **Communication and Disclosure.** The monograph uses a relatively narrow definition of "communication and disclosure" (see Chapter 9). Given that the focus of the monograph is on the technical concepts under IFRS, is this definition appropriate for the educational objectives of the monograph?

6. **Case Studies.** The Exposure Draft includes eight case studies that are designed to expand on and illustrate the concepts presented.
- a. Do the case studies provide sufficient detail for the reader to replicate the processes illustrated?
  - b. Do the case studies cover a sufficient breadth of examples?
  - c. Are there additional techniques that should be illustrated in any of the case studies?
  - d. A basic participating life example is included, but the authors would like to have comments about its usefulness. The authors are interested in receiving suggestions regarding how the variable fee approach (rather than a mirroring approach) could be applied in this example. Under typical participating features for life insurance, experience for a pool of policyholders will impact the policyholders' cash flows. To the extent that the fulfillment cash flow risks are insignificant under participating contracts, should such an example simply illustrate that the risk adjustments under participating contracts could be immaterial?