Appendix B: Comparison of the Guidance in This Proposed Update and in the 2013 IASB Revised Exposure Draft

B1. The table highlights some significant differences between the FASB's proposed Update and the IASB's proposed model for insurance contracts. It does not highlight all differences. For a complete description of the IASB's model, see the 2013 IASB's revised Exposure Draft, *Insurance Contracts*.

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Scope and scope exceptions	Financial guarantee contracts that meet the definition of insurance are in the scope of the proposed Update. Some charitable gift annuities and some guarantees previously accounted for under Topic 460 are explicitly excluded from the scope.	Participating investment contracts that are issued by entities that issue insurance contracts are in the scope of the IASB's model. Financial guarantee contracts are excluded from the scope unless the issuer has previously asserted explicitly that it regards those contracts as insurance contracts and has used accounting applicable to insurance contracts, in which case the issuer may elect to apply IFRS 7 and IFRS 9.
Definition of portfolio	A group of insurance contracts that are: 1. Subject to similar risks and priced similarly relative to the risk taken on 2. Have similar duration and similar expected patterns of release	A group of insurance contracts that are: 1. Subject to similar risks and priced similarly relative to the risk taken on; and 2. Managed together as a single pool.

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	from risk (that is, reduction in variability in cash flows).	
Initial measurement		
Fulfillment cash flows	The measurement of the liability includes cash outflows that an entity will incur to directly fulfill its obligations to the portfolio of policyholders, or can be attributed to them on a reasonable and consistent basis. Therefore, it does not include other expenses unrelated to or only indirectly related to satisfying those specific obligations, such as commissions, transaction-based taxes (for example, premium taxes), or levies (for example, guarantee fund assessments).	The measurement of the liability includes all cash outflows that will arise as the entity fulfills the portfolio of contracts, including commissions, transaction-based taxes (for example, premium taxes), and levies (for example, guarantee fund assessments) that arise directly from existing insurance contracts or can be attributed to them on a reasonable and consistent basis.
Measurement and presentation of the present value of expected cash inflows in excess of the present value of expected cash outflows	The expected present value of cash inflows over the expected present value of cash outflows to fulfill the portfolio of policyholder contracts should be presented as a margin that represents the expected unearned profit for the portfolio of insurance contracts.	The measurement of the insurance contract liability includes an explicit risk adjustment that represents the compensation that the entity requires for bearing the uncertainty in the amount and timing in the remaining cash flows. The excess of the expected present value of cash inflows over the expected

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		present value of cash outflows to fulfill the policyholder contract plus a risk adjustment should be presented as a contractual service margin.
Acquisition costs	Limited to acquisition costs directly attributable to obtaining a portfolio of insurance contracts that are successfully obtained. Expected acquisition costs are included in determining whether an entity should recognize the remaining margin for a portfolio of contracts that are expected to be loss generating for contracts measured using the building block approach or an onerous contract liability for contracts measured using the premium allocation approach. Acquisition costs incurred reduce the margin or the liability for remaining coverage and are recognized as an expense in the same manner as the margin is recognized as revenue.	Includes all acquisition costs directly attributable to obtaining a portfolio of insurance contracts, including costs that would be attributable under the FASB's proposed Update to unsuccessful efforts. Expected acquisition costs should be included in the fulfillment cash flows and in the measurement of the amount of the contractual service margin and should be recognized as an expense in the same manner as the contractual service margin is recognized.

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Participation features	If a participation feature contractually depends wholly or partly on the performance of an underlying item: 1. As measured in accordance with U.S. GAAP, the measurement of the liability should reflect the measurement of the underlying item. 2. Based on something other than the measurement in accordance with U.S. GAAP and the difference: a. Reflects a timing difference that will reverse and enter into future calculations of participating benefits, the measurement of the liability should be adjusted if necessary to reflect the measurement of the underlying items in accordance with U.S. GAAP. b. Does not reflect such a timing difference, the measurement of the liability should be based on the	Fulfillment cash flows for all participation features specifically linked to and that are expected to vary directly with the returns on underlying items should reflect the measurement of the underlying items. For contracts without any contractual linkage to underlying items (for example, universal life or other contracts in which all the participation features are discretionary), the measurement of the feature should reflect the entity's expectations of the timing and amount of payments to policyholders. The measurement of the fulfillment cash flows for a discretionary participation feature that provides policyholders with the right to participate in the surplus of the entity should include the relevant remaining surplus of the entity. This means that there would be no profit or equity reported in any accounting period for mutual insurers (that is, companies owned entirely by their policyholders).

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	contractual feature (for example, if the contractual feature passes through to the policyholder the fair value of the underlying item). Changes in the measurement of the liability for participation features that contractually depend wholly or partly on the performance of an underlying item should be presented in the same manner as the changes in the underlying item (that is, in net income or other comprehensive income) except in 2(b) above, in which case the changes in the measurement of the liability should be presented in net income. Noncontractual or discretionary participation features should be included in the measurement of the fulfillment cash flows based on expected cash flows from these features.	
Subsequent measurement		

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Changes in estimates of fulfillment cash flows	All changes in estimates should be recognized immediately in net income and as an adjustment to the insurance liability.	Unless the contract is onerous, all changes in estimates relating to future coverage or future services should be offset against the contractual service margin.
Margin (risk adjustment and contractual service margin) release patterns	The margin should be recognized in net income as a part of revenue over the coverage and settlement periods as the entity is released from risk as evidenced by a reduction in the variability of cash outflows. Changes in actual and expected cash flows of a portfolio of contracts should be considered in determining an entity's release from risk but should not be recorded as a direct adjustment to the margin. The implicit margin in the liability for remaining coverage for contracts measured using the premium allocation approach should be recognized over the coverage period as the liability for remaining coverage is reduced and corresponding revenue is recognized.	The risk adjustment should be remeasured each reporting period with changes recognized immediately in net income. The contractual service margin should be adjusted to reflect favorable and unfavorable changes in the measurement of the expected cash flows related to future coverage and services (unless the portfolio of contracts are onerous). The contractual service margin should be recognized in net income as part of revenue over the coverage period in a systematic basis that is consistent with the pattern of transfer of services that are provided under the contract. Any adjustments to the contractual service margin should be reflected in the transfer of services and therefore recognized prospectively.

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Interest accretion rates for participating investment contracts	Upon any change in expectations of the crediting rates used to measure the insurance liability, the interest accretion rates should be reset in a manner that recognizes any changes in estimated interest crediting and the effect on the measurement of the insurance contract liability on a level-yield basis over the remaining life of the portfolio of contracts.	When an entity expects changes in the returns of underlying items to affect the expected cash flows, the interest accretion rates should be reset for the subset of cash flows that vary with returns on underlying items (and are not directly measured on the same basis as the underlying item because there is no specified link to the performance of that underlying item that the entity must hold).
Use of the premium allocation approach	The premium allocation approach is a separate model and should be applied for all contracts meeting specified criteria. Reinsurance contracts held should be accounted for using the same approach used to account for the underlying insurance contracts issued.	The premium allocation approach is a simplification to the IASB's main approach (that is, the building block approach), and may be applied for any contracts when it would produce measurements that are a reasonable approximation to those that would be produced when applying the requirements of the main approach. Reinsurance contracts held may be accounted for using a different approach than the approach applied to the underlying contracts.
Consideration of counterparty credit losses	When measuring the fulfillment cash flows for reinsurance contracts held, the risk of	The risk of nonperformance by reinsurers (for reinsurance held) and by policyholders should be

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	nonperformance by the reinsurer should be measured on an expected value basis in accordance with Subtopic 825-15 on credit losses. Because any unconditional right to premiums or other consideration should also be separately recognized as a financial instrument, the risk of nonperformance by the policyholder should also be measured on an expected value basis in accordance with Subtopic 825-15.	measured on the basis of an explicit, unbiased and probability-weighted estimate basis (that is, consistent with the measurement principle applied to cash flows in general).
Substantial modifications	The criteria to determine when a modification is a substantial modification include, among other circumstances, situations similar to those in which internal replacements are classified as substantially changed from the replaced contract on the basis of the current criteria in paragraph 944-30-35-37.	The criteria to determine when a modification is a substantial modification include, among other circumstances, situations in which the modified contract will be included in a different portfolio from the one in which it was included in at initial recognition.
Insurance contracts acquired in a business combination	If the present value of fulfillment cash flows exceeds the fair value of the insurance contract liability, the insurer should recognize an immediate	If the present value of fulfillment cash flows exceeds the fair value of the insurance contract liability, the insurer should apply the general requirements of

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	loss in net income at the acquisition date.	IFRS 3, *Business Combinations* (that is, the insurer should adjust goodwill and thus not recognize a loss in net income at the acquisition date).
Transition	When determining the margin, an entity may elect to measure the insurance contract liability and the margin using its determination of the portfolio immediately before transition. If there is not objective information that is reasonably available to retrospectively adopt the proposed standard or to estimate what the margin would have been using the practical expedient in the proposed guidance, an entity should apply the general requirements of Subtopic 250-10 that are relevant to situations in which there are limitations on retrospective application. An entity should redesignate and reclassify its financial assets that are designated to its insurance business either by legal entity or internal designation or relating to	When determining the margin at transition, an entity should determine the portfolio in accordance with the proposed definition of portfolio. If it is impracticable to apply the proposed standard retrospectively, an entity should estimate the contractual service margin, taking into account all objective information that is reasonably available and by applying specified simplified requirements. An entity may elect to (a) redesignate and classify its financial assets as measured at fair value through profit or loss if to do so would eliminate or significantly reduce a new inconsistency in the measurement or recognition that would have been created by the application of the insurance contracts standard; (b) use other comprehensive income to present changes in the fair

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	funding of insurance contracts that are newly designated to be insurance, as if it had adopted on the transition date the relevant classification and measurement guidance for financial instruments in effect.	value of some or all of the equity instruments that are not held for trading; and/or (c) revoke a previous election to use other comprehensive income to present changes in the fair value of some or all of the equity instruments that are not held for trading. An entity is required to revoke previous designations as measured at fair value through profit or loss if the initial application of the insurance contracts standard eliminates an accounting mismatch that led to that previous designation.