International Financial Reporting Standards

Application of the new accounting requirements for financial assets by insurers

October 2015

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

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Background

- The IASB expects to finalise a new insurance contracts Standard in 2016 which introduces consistent accounting and requires measurement on current basis. The forthcoming changes will not be effective before 2020.
- In July 2014, the IASB issued IFRS 9 *Financial Instruments* to be effective from 1 January 2018. It includes a more logical classification with complex assets measured at FV, better impairment model and more flexible hedge accounting.
- Some raised concerns about the interaction between effective date of IFRS 9 with the forthcoming changes to insurance contracts liabilities as follows:
  - the complexity of two consecutive major accounting changes; and
  - additional volatility in profit or loss that could arise when IFRS 9 is applied in conjunction with IFRS 4 *Insurance Contracts.*
- Some suggested that the effective date of IFRS 9 should be deferred for insurers and aligned with the effective date of the forthcoming Standard.

Timeline

Flexibility of both IAS 39* and IFRS 4** results in little volatility in profit or loss

Interaction of IFRS 9 and IFRS 4 may result in increased volatility in profit or loss

Interaction of IFRS 9 and the new insurance contracts Standard assists in reducing that volatility in profit or loss

Effective date of IFRS 9
1 January 2018

Effective date of the new insurance contracts Standard
– not before 2020?

IAS 39 + IFRS 4

IFRS 9 + IFRS 4

IFRS 9 + new insurance contracts Standard

*IAS 39 *Financial Instruments: Recognition and Measurement* is pre-IFRS 9
**IFRS 4 *Insurance Contracts* sets out the existing accounting requirements for insurance contracts

Overview of approaches

Concern	How IASB proposes to address concerns
Temporary effects of applying IFRS 9 in conjunction with IFRS 4 (existing insurance contracts Standard)	• Confirm existing flexibility in IFRS 4 • Overlay approach: IFRS 9 applied by all entities, but P&L adjusted to remove volatility for some assets – available to all entities that issue insurance contracts • Deferral approach – available to narrow set of entities that predominantly issue insurance contracts.
Effects of applying IFRS 9 in conjunction with the new insurance contracts Standard	• Transition relief so entities can newly assess the classifications for financial assets under IFRS 9 when based on the facts and circumstances on the date of initial application of the new Insurance Contract Standard and other designations options (eg Fair value option)

The Overlay Approach

- IFRS 9 applied by *all* entities from 1 January 2018
- Entities include in profit or loss an adjustment to remove from profit or loss and recognise in OCI
  - the difference between the amounts recognised under IFRS 9 and the amounts that would have been recognised under IAS 39
  - for financial assets measured at FVPL under IFRS 9 that were not measured at FVPL under IAS 39
- Objective is to remove from profit or loss any increased volatility in a transparent and consistent manner while maximising comparability

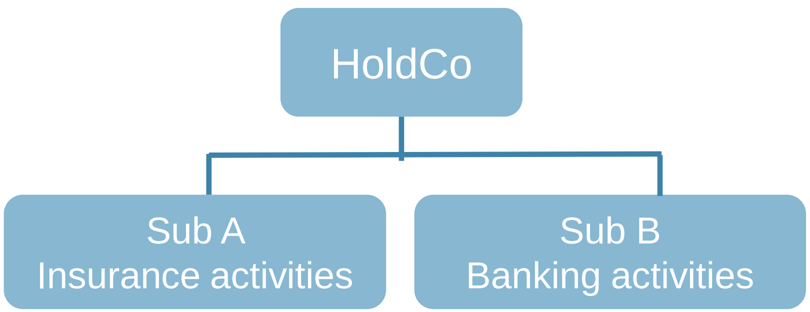
Statement of Comprehensive Income

	20XX
Insurance contracts revenue	X
Incurred claims and expenses	(X)
Operating result	**X**
Investment income	X
Interest on insurance liability	(X)
Investment result	**X**
Profit or loss	**X**
IFRS 9 ‘increased volatility adjustment’	X
Effect of discount rate changes on insurance liability	(X)
Total comprehensive income	**X**

The Deferral Approach:
Deferral at reporting entity level

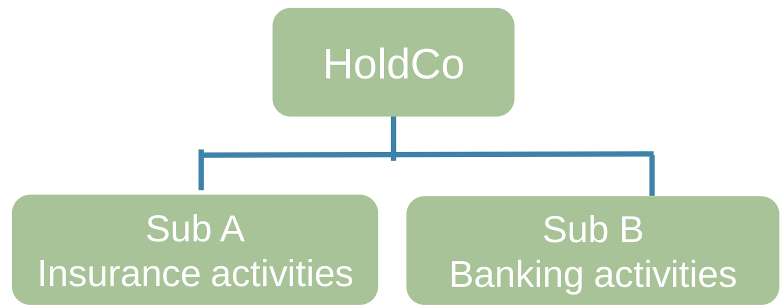
IFRS 9 IAS 39

- If the predominant activity of the conglomerate is insurance business



- The conglomerate could have the <u>option</u> to continue to apply IAS 39 to all financial assets in consolidated financial statements
- However, if Subsidiary B publishes standalone financial statements it <u>must</u> apply IFRS 9

- If the predominant activity of the conglomerate is NOT insurance business



- The conglomerate <u>must</u> apply IFRS 9 to all financial assets in consolidated financial statements
- However, if Subsidiary A publishes standalone financial statements it could have the <u>option</u> to continue to apply IAS 39

Next steps

- Publication of ED to amend IFRS 4 in December 2015
- Comment period is 60 days
- Re-deliberations and publication of final amendments to IFRS 4 in 2016
- Publication of new insurance contracts Standard expected in late 2016
- Approximately three years' implementation period

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- Project podcasts
- Investor resources
- High-level summary of project
- Due process summary and due process steps table

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