

Insurance Accounting Alert

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Boards discuss comment letter responses, IASB discusses link between insurance contracts project and IFRS 9

What you should know

- ▶ The Boards jointly discussed the responses to their respective EDs on insurance contracts.
- ▶ The IASB plans to complete and issue IFRS 9 in the first half of 2014 and to address the link between IFRS 9 and the insurance model as part of the re-deliberations of its insurance contracts project.

Overview

On 22 January 2014, the International Accounting Standards Board and the Financial Accounting Standards Board (respectively, the IASB and the FASB, and collectively, the Boards) held a joint session to discuss summaries of the feedback from comment letters, outreach (including users of financial statements) and fieldwork on the IASB's Exposure Draft *Insurance Contracts* (ED) and the FASB's Exposure Draft *Insurance Contracts*, which were both issued in June 2013.

In a separate session, the IASB discussed the interaction between the insurance project and its proposed model for classification and measurement in IFRS 9 *Financial Instruments*.

Responses to the insurance contract proposals

At the meeting, the IASB staff and the FASB staff gave an overview of the main themes arising from:

- ▶ Comments letters in response to the proposals in both the IASB's and FASB's respective EDs
- ▶ Feedback from the IASB's outreach activities and fieldwork carried out to supplement the formal consultation of the ED and FASB's field testing outreach
- ▶ Feedback from outreach to financial statements users

A summary of comments received related to the IASB's ED can be accessed through the IASB's Insurance Contracts project website.¹

A summary of the comments in response to the FASB's ED can be accessed through the FASB's Insurance Contracts project website.²

¹ [IASB Insurance Contracts Project](#)

² [FASB Insurance Contracts Project](#)



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Discussions at the joint session focused mainly on comments and questions from Board members seeking to clarify the staff's summary of the feedback received.

Whilst the Boards did not explicitly debate which topics they plan to re-deliberate in the future, the IASB's discussions focused on constituents' concerns related to the five topics in the ED:

- ▶ Unlocking the contractual service margin
- ▶ Participating contracts
- ▶ Insurance contract revenue
- ▶ Other Comprehensive Income (OCI)
- ▶ Transition

Several IASB members discussed possible alternatives to the mirroring approach for participating contracts raised in the comment letters, and whether to make the use of OCI optional. Some IASB members also indicated they may support returning to the summarised margin approach included in the IASB's 2010 ED. The IASB intends to determine, at a later stage, the specific issues that it will re-deliberate.

The FASB's discussions covered a range of topics related to the 48 questions included in its ED. Some FASB members noted they were rethinking some of their views and highlighted broad issues that would need to be considered in re-deliberations, including:

- ▶ Distinguishing between volatility, accounting mismatches and economic mismatches
- ▶ Whether financial reporting comparability of insurers and other types of companies, including financial institutions, is important
- ▶ When the benefits of making the accounting more complex would outweigh the costs

How we see it

Based on the overall direction of the comments during the meeting, it is likely that the IASB will focus on the five topics it sought feedback on in its ED and is expected to follow a tight schedule to issue a final insurance standard in early 2015. The FASB is likely to re-deliberate on a broader set of topics, considering the FASB ED included 48 questions. For some of the questions, overlap exists that would allow for joint deliberations. However, a number of areas are unlikely to be re-deliberated jointly by the Boards, which may result in fewer areas of convergence.

Link with IFRS 9

One of the key themes in the comment letters in response to the IASB's ED is the link with IFRS 9. Many respondents emphasised the importance of asset liability management to the insurance business, particularly for long-duration contracts. These respondents believe the 2013 ED did not sufficiently address the interaction between the model for insurance liabilities and the classification and measurement model for the assets backing those liabilities, resulting in accounting mismatches not being sufficiently mitigated or new accounting mismatches being created.

The IASB staff expressed the view that the Board should finalise and issue the completed version of IFRS 9 as soon as possible and not wait to evaluate it against developments in the insurance project. The staff believe that the proposed IFRS 9 model, including the affirmed modifications from the ED *Classification and Measurement: Limited Amendments to IFRS 9*, would offer a sufficient 'toolkit' for resolving specific issues in accounting for assets when finalising a standard on insurance contracts.

During the discussion, several IASB members pointed out the dilemma facing the Board: it is still not clear what direction it will take within the insurance project, yet, at the same time, there is an urgent need to finish IFRS 9. Some IASB members noted that finalising IFRS 9 would give rise to the risk of having to re-open it later if significant issues were to emerge when connecting the insurance model to the completed IFRS 9. Notwithstanding these concerns, the Board agreed with the staff that IFRS 9 offers a 'toolkit' that would allow the IASB to address any issues in the interaction with IFRS 9 as part of the insurance project.

How we see it

Even though the IASB was not asked to take a formal vote on any aspect of the link between IFRS 9 and the insurance project, the comments made at the meeting suggest it does not intend to hold combined re-deliberations for IFRS 9 and the insurance ED. The IASB's plan to issue the completed IFRS 9 in the first half of 2014 further reinforces the view that there is no real opportunity for a parallel discussion. Any issues with the interaction between assets and insurance liabilities will therefore have to be dealt with as part of the insurance project.

Next steps

The IASB will continue its discussions in March; the topics have not yet been announced. The FASB will continue its discussions in February.

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