

# Insurance Accounting Alert

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## IASB sets 2018 effective date for IFRS 9, FASB scales back scope of its insurance project

### What you need to know

- ▶ The IASB has set the mandatory effective date of IFRS 9 to 1 January 2018.
- ▶ The FASB has changed the scope of its project to focus on targeted improvements for long-duration insurance contracts.

### Overview

During the February meeting, the International Accounting Standards Board (IASB) discussed the effective date of IFRS 9 *Financial Instruments*. The IASB did not hold redeliberations on its Exposure Draft *Insurance Contracts* (ED). The Financial Accounting Standards Board (FASB) discussed the scope of its insurance contracts project as part of the redeliberations on its Exposure Draft *Insurance Contracts*.

### IFRS 9 effective date

The IASB tentatively decided that the mandatory effective date of IFRS 9 will be for annual periods beginning on or after 1 January 2018. One of the IASB's reasons for selecting this date is having more opportunity to progress its insurance contracts project and potentially provide greater alignment between IFRS 9 and the new insurance contracts standard. However, the IASB clarified that the mandatory effective date of IFRS 9 will not depend on the completion of the new insurance contracts standard and noted it will consider, as part of the insurance contracts project, whether further transition guidance is necessary if entities would have to apply IFRS 9 before the insurance contracts standard becomes effective. Previously, in November 2013, the IASB stated that the mandatory effective date of the completed IFRS 9 standard would not be earlier than 1 January 2017, but did not give a specific date at that time.

The IASB issued new hedge accounting requirements in November 2013 and has now also completed redeliberations on the impairment and classification and measurement requirements. The completed version of IFRS 9 is expected to include the classification and measurement, impairment and hedge accounting requirements<sup>1</sup> and is expected to be issued in the second quarter of 2014.

### How we see it

The decision to defer the effective date of IFRS 9 offers the IASB the opportunity to solve one of the key concerns about the insurance contracts project, notably the concern that the IFRS 9 and insurance contracts' effective dates would not be aligned, resulting in insurers having to go through two rounds of change in a relatively short period. Even though the IASB stated the IFRS 9 effective date will not depend on the insurance project, setting an effective date of 2018 for IFRS 9 might suggest that the onus is now on the IASB to finish the insurance project within a time frame that would allow alignment, whilst still giving insurance companies sufficient time to prepare.

<sup>1</sup> Excluding macro hedge accounting, which is dealt with through a separate project. A discussion paper on macro hedge accounting is expected to be issued in Q1 2014.



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## Scope of FASB's insurance project scaled back

On 19 February 2014, the FASB discussed the scope of its insurance contracts project and, as a result, tentatively decided to scale back the scope to focus on targeted improvements to the current guidance for long-duration contracts and disclosures for short-duration contracts. Entities will continue to apply today's measurement and recognition guidance to short-duration contracts such as property and casualty, short-term health, mortgage, financial guarantee and title insurance contracts.

The FASB also tentatively decided that contracts written by non-insurance entities will not be subject to the guidance for insurance. At a future date, the FASB may consider whether to require non-insurance entities to apply the insurance guidance to certain contracts they write.<sup>2</sup>

### How we see it

The FASB's decisions do not directly affect the IASB's proposals. However, we expect that the IASB will rethink some elements of its project plan. Specifically, the IASB and FASB had been anticipating a continuation of their joint discussions on certain topics in their respective EDs to explore further ways to achieve convergence. Following the FASB's recent decision, it is unclear whether the planned joint redeliberations will occur as the scope and timing of the FASB's discussions may differ from those of the IASB.

### What's next?

The IASB plans to hold its next meeting in March; the topics have not yet been announced, nor have the IASB or the FASB indicated whether they will hold joint redeliberations on insurance contracts in March, as scheduled.

During the IASB's Accounting Standards Advisory Forum (ASAF) meeting in March, the IASB staff plans to ask ASAF members for their views on how to respond to comment letter feedback on certain topics, notably the use of Other Comprehensive Income, unlocking the Contractual Service Margin and insurance contracts' revenue.<sup>3</sup>

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<sup>2</sup> See EY's publication [To the Point No. 2014-06](#), FASB scales back scope of insurance contracts project, for a summary of the FASB discussion.

<sup>3</sup> [ASAF March 2014 Agenda papers](#).