

June 2013

## International Financial Reporting Standards

# IFRS4 *Insurance contracts*

Publication of a revised ED and next steps

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- Background
- A revised Exposure Draft (ED)
- FASB project on insurance contracts
- Status of convergence
- Timetable
- Outreach plans
- Q&A

## Existing issues

- No IFRS with comprehensive framework for measuring insurance contracts.
- Different accounting approaches result in lack of comparability between:
  - similar insurance contracts within single entity;
  - entities in different jurisdictions.
- Lack of relevant, current information about risks and effects of insurance contracts on financial statement.

## Project objectives

- Provide a consistent basis for accounting for insurance contracts to improve transparency about the effects of insurance contracts on a company's financial statements and to reduce diversity in the accounting for insurance contracts.
- Provide current, complete information about risks, financial position and performance of an entity that issues insurance contracts.

# Shortly publishing a revised Exposure Draft (ED)

- Next due process step
- Builds on responses received on previous proposals, including:
  - over 250 comment letters on ED and over 160 comment letters on DP,
  - 14 meetings with Insurance Working Group,
  - field work in 2009 and 2011,
  - over 400 meetings with users, preparers, auditors, regulators and other interested parties.
- Seeks feedback on five areas of significant change from 2010 proposals (described on next slide):
  - revisions address issues identified in previous consultations however add reporting and operational complexity,
  - focus on benefit of revisions relative to the cost.

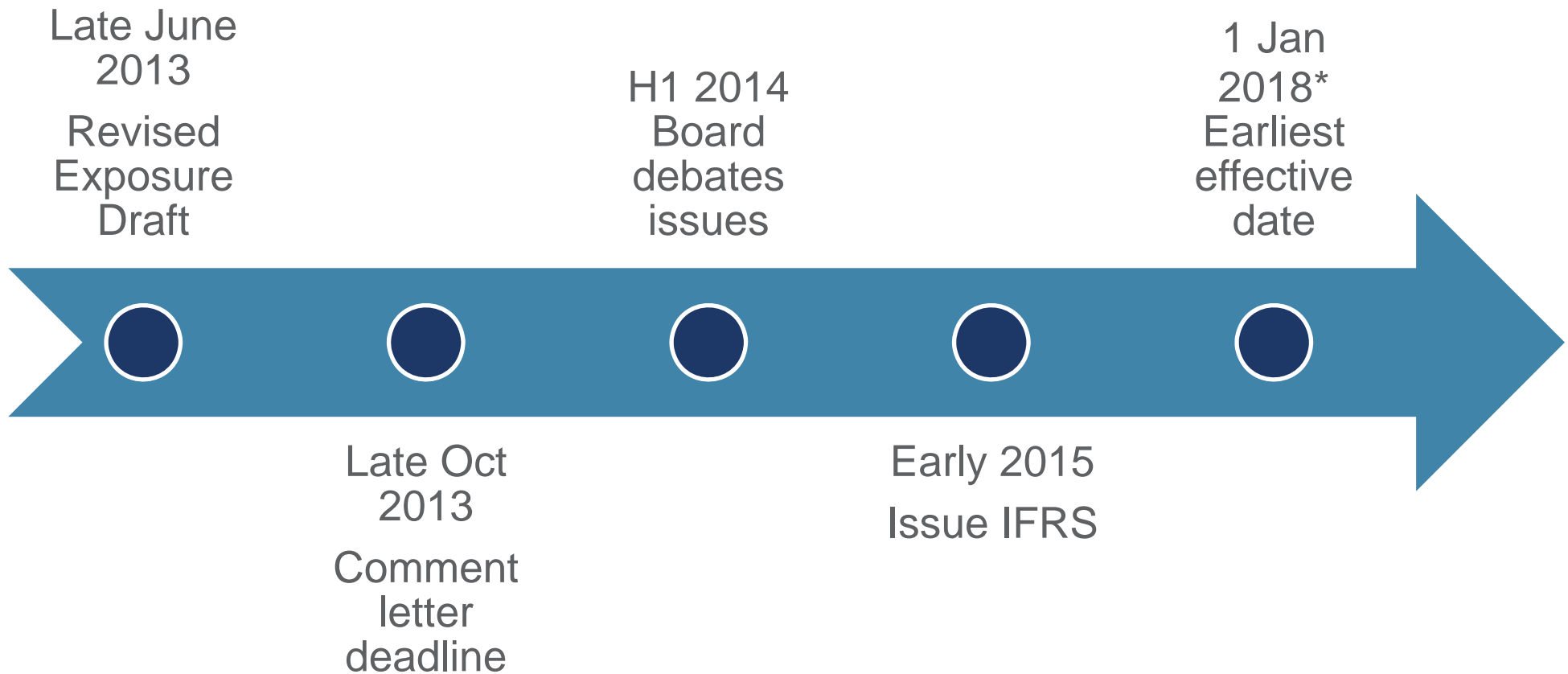
# Revised ED - five areas of significant change from 2010 ED

- Presentation proposals
  - Operating result presented as a difference between insurance contract revenue and expenses (consistent with other service activities) rather than sum of net margins.
  - Interest expense - separately presented the cost view in profit or loss and current view in OCI rather than all changes presented in profit or loss.
- Measurement proposals
  - Reporting changes in unearned profit for future services as those services are provided rather than reporting them in the period when the changes arise.
  - For contracts that also provide investment returns: exception to align the accounting between assets and liabilities when no economic mismatch could arise between them. Accounting mismatch could arise under 2010 ED.
- Applying Standard for the first time
  - Measure unearned profit at transition as if Standard was always applied (with reliefs when this approach is not possible). Under 2010 ED proposals - no unearned profit measured on transition that will be recognised in future periods.

- Background
  - Has been joint with FASB since October 2008
  - FASB's objectives are to improve existing US GAAP
  - FASB issued a DP in September 2010 containing proposals similar to IASB's 2010 ED
  - Proposals in the IASB's 2010 ED and FASB's 2010 DP have been redeliberated jointly
- Next steps:
  - FASB plans to publish an Exposure Draft in end of June 2013
  - The FASB ED:
    - First ED so includes questions on all aspects of the proposals
    - seeks input on whether improves US GAAP
    - 120 day comment period

- Joint decisions
  - Proposals apply to insurance contracts rather than insurance entities.
  - Same overall approach for measurement based on current expected present value of cash flows to fulfil insurance contract.
  - Consistent approach for insurance contract revenue and expense.
- Differences remain, especially in the representation of the profit from insurance contracts:
  - IASB measures profit from bearing risk explicitly,
  - IASB adjusts the measure of unearned profit relating to future coverage and other services in response to changes in estimates of cash flows affecting future coverage or other services.

# Timetable



\* At least 3 years to implement proposals



- Main objectives:
  - raise awareness of proposals and encourage high quality comment letters,
  - test operationality and identify implementation issues,
  - obtain input to assess costs and benefits of proposals.
- Focus on:
  - whether provides users of financial statements with useful information,
  - how the proposals affect preparers, particularly those who have not had the resources to follow the project closely during deliberations.
- Field work:
  - builds on previous field work so focuses on 5 targeted areas,
  - includes preparers with different types of insurance contracts and from different jurisdictions.

