Ihre Ansprechpartner

Sehr geehrte Damen und Herren,

für Rückfragen zu der beigefügten Publikation „In brief" zur Thematik „IASB issues Exposure Draft to amend IFRS 4: Insurance Contracts" stehen Ihnen folgende Ansprechpartner gerne zur Verfügung:

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In brief
A look at current financial reporting issues

December 2015

IASB issues Exposure Draft to amend IFRS 4: Insurance Contracts

In December 2015 the IASB issued an Exposure Draft (ED) to amend IFRS 4: Insurance Contracts (IFRS 4) to address the accounting consequences arising from the application of IFRS 9 Financial Instruments (IFRS 9) prior to the application of the new insurance contracts Standard. The IASB has proposed two potential solutions to address the financial and operational concerns of the affected entities: a temporary exemption from applying IFRS 9 and the Overlay Approach.

Temporary exemption from applying IFRS 9

The ED will defer the mandatory adoption of IFRS 9 for eligible insurers until the effective date for the new insurance contracts standard or 1 January 2021, whichever is the earliest. The temporary exemption will be at the reporting entity level for entities that issue contracts within the scope of IFRS 4 if insurance is the predominant activity for the reporting entity. An eligible reporting entity would apply either IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) or IFRS 9 to *all* its financial instruments.

Whether insurance is predominant is based on the proportion of liabilities from contracts in the scope of IFRS 4 relative to the entity's total liabilities at the date when the entity would otherwise be required to initially apply IFRS 9. The ED does not set a quantitative threshold for the assessment of predominance. However, the Basis for Conclusions indicates that 75% of liabilities in scope of IFRS 4 would not be sufficient to meet the predominance eligibility criterion.

Entities applying the temporary exemption will be required to make disclosures, some of which will require elements of IFRS 9 classification and measurement assessment.

The Overlay Approach

The ED will permit entities that issue contracts within the scope of IFRS 4 to remove from profit or loss, and recognise in other comprehensive income (OCI), the additional volatility that could arise when IFRS 9 is applied before the new insurance contracts standard. The adjustment would be applied to financial assets that are designated as relating to insurance activities, and that are measured at FVPL under IFRS 9 and were measured at cost, amortised cost or fair value through OCI under IAS 39. As a result of the adjustment, overall profit or loss would reflect the result that would have been recognised if these assets would have been accounted for under IAS 39.

If the overlay approach is used, entities designate financial assets that relate to contracts within the scope of IFRS 4. Entities would not be able to include assets clearly held in respect of activities other than contracts within the scope of IFRS 4, e.g. financial assets of a group held for banking or asset management activities. Redesignation of financial assets may be appropriate if there is a change in the relationship between the assets and the contracts within the scope of IFRS 4.

The overlay approach should be applied retrospectively to eligible financial assets on transition to IFRS 9 recognising as an adjustment to the opening balance of OCI an amount equal to the difference between the fair value of financial assets and their carrying amount determined in accordance with IAS 39 immediately prior to transition to IFRS 9. When an entity stops applying the overlay approach it should reclassify any balance of the prior periods' overlay adjustments accumulated in OCI to retained earnings as of the beginning of the earliest reporting period presented.

The temporary exemption and the overlay approach are both optional and eligible entities can still adopt IFRS 9 in full. However, both alternatives are prohibited for first time adopters of IFRS. Both approaches have additional disclosure requirements.

Impact

Entities eligible for, and opting to use, the temporary exemption will be able to avoid additional income statement volatility, reduce the cost of adoption of IFRS 9 before the new insurance contracts standard and avoid explaining multiple accounting changes over a period of a few years.

Entities that are not eligible for, or do not use, the deferral approach will be able to use the overlay approach for eligible financial assets to reduce income statement volatility from adoption of IFRS 9 in the period before the new insurance contracts standard is effective.

Insight

A number of traditional insurers may not be eligible for the temporary exemption as they will not meet the predominance criteria. The major reasons for this are likely to relate to the level of investment contracts written, reliance on external financing, derivative liabilities and puttable non-controlling interest liabilities.

The overlay approach will require insurers to maintain accounting records under both IAS 39 and IFRS 9 for qualifying assets.

Temporary exemption from applying IFRS 9 at the reporting entity level will require insurance subsidiaries to prepare financial statements under both IAS 39 and IFRS 9 if the group adopts IFRS 9 but IAS 39 is used in the individual subsidiary financial statements. In addition subsidiaries (including banking subsidiaries) of eligible insurers who defer IFRS 9 in the group accounts would still have to report under IFRS 9 in their individual financial statements.

What's next?

The comment period ends on 8 February 2016. You should consider responding to the proposals so that your views can be considered by the IASB in its redeliberations and finalisation of the proposals.