Insurance alert

IASB meeting on January 22, 2015

Since a variety of viewpoints are discussed at IASB meetings, and it is often difficult to characterize the IASB's tentative conclusions, these summaries may differ in some respects from the actions published in the IASB Observer notes. In addition, tentative conclusions may be changed or modified at future IASB meetings. Decisions of the IASB become final only after completion of a formal ballot to issue a final standard.

Highlights

The IASB confirmed the proposals in the 2013 ED regarding the designation and revoking of the fair value option relating to accounting mismatches and investments in equity instruments as measured at fair value through other comprehensive income.

The IASB will consider transition relief to permit or require an entity to reassess the business model for financial assets at the date of initial application of the new insurance contracts standard. This decision implies that the IASB will not consider deferring the mandatory effective date of IFRS 9 for entities that issue insurance contracts.

Transition Relief – Reassessment of IFRS 9 Financial Instruments classification upon adoption of new insurance contracts standard

In developing the 2013 exposure draft ('ED'), the IASB stated its intention to allow a period of approximately three years between publishing a final standard on insurance contracts and the standard's effective date. This means that the earliest possible mandatory effective date of the new insurance contracts Standard will now be after 1 January 2018, the mandatory effective date of IFRS 9 Financial Instruments (IFRS 9).

The IASB unanimously confirmed the proposals in the 2013 ED regarding the designation and revoking of the fair value option relating to accounting mismatches and investments in equity instruments as measured at fair value through other comprehensive income on adopting the new insurance contracts standard.

However, many insurers are concerned that they will be required to apply the classification and measurement requirements of IFRS 9 without the opportunity to fully evaluate the implications of the new insurance contracts standard.

A few board members believe that it is suboptimal that insurers will have to implement IFRS 9 twice and challenged the conceptual basis of re-assessing the business model. They are concerned that insurers will incur significant costs and some preferred deferring IFRS 9 as a whole.

Others believed that the business model under IFRS 9 is a matter of fact and the number of re-assessments should not be significant. The scope of the transition relief, including identifying the assets that relate to insurance contracts, was a concern when considering deferring IFRS 9. In addition, the re-deliberations for the new insurance contracts standard should be finalised before insurers implement IFRS 9 and insurers can take this into account in the IFRS 9 implementation.

Some noted that while the business model is a matter of fact, the business model can change as a result of changes in the insurance measurement model from a cost based model to the model proposed in the ED, suggesting that reclassification may be appropriate.

13 out of 14 Board members voted in favour of considering transition relief to permit or require an entity to reassess the business model for financial assets at the date of initial application of the new insurance contracts standard.

This reassessment would be based on the conditions for assessing the business model in IFRS 9 and the facts and circumstances that exist at the date of the first application of the new insurance contracts standard. The IASB also decided not to consider deferring the mandatory effective date of IFRS 9 for entities that issue insurance contracts.

The IASB will discuss in a future meeting what consequential issues arise as a result of the Board's decision. For example one board member noted that the IASB should consider how this would apply to bancassurers. The Board will also need to consider whether such a change should be applied prospectively or retrospectively.

During the course of the discussion, the chair noted that he expects the board will complete its deliberations in the summer, and hopes that drafting of the standard will be completed by the end of 2015.

Contact us:

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