



International Accounting Standards Board®

Press Release

31 March 2004

IASB ISSUES STANDARD ON INSURANCE CONTRACTS

The International Accounting Standards Board (IASB) today issued International Financial Reporting Standard 4 *Insurance Contracts* (IFRS 4). The publication of this IFRS provides, for the first time, guidance on accounting for insurance contracts, and marks the first step in the IASB's project to achieve the convergence of widely varying insurance industry accounting practices around the world.

In developing IFRS 4, the IASB balanced the urgent need for an international standard on accounting for insurance contracts with the recognition that developing a global consensus on a rigorous and comprehensive approach would require extensive consultation beyond the time frame available. In particular, consultation on a completely new international approach could not be completed in time to meet the starting date of 2005 set by the European Union and other jurisdictions. In that light, IFRS 4 completes only the first phase of the IASB's insurance project. It is aimed at introducing improved disclosures for insurance contracts, and modest improvements to recognition and measurement practices, without requiring extensive changes that might need to be reversed when the IASB completes the second phase of this project.

In the second phase, the IASB will address broader conceptual and practical issues related to insurance accounting. These will be the subject of IASB deliberations and consultations with interested parties that will resume in the second quarter of 2004. The IASB's next step will be the establishment of an international working party of about fifteen members. The working party will be composed of experts active in the insurance industry and the accounting profession, representatives of the appropriate regulatory and supervisory authorities, and investment analysts. Although the completion of any long-term solution for insurance contracts may take several years to complete, the IASB is willing to revise IFRS 4

in the short term in the light of any immediate solutions arising from the working party's discussions. Further details of the insurance working party will be announced shortly.

Introducing IFRS 4, Sir David Tweedie, IASB Chairman, said:

Developing a widely respected accounting standard that addresses the many complex practical and conceptual problems in insurance accounting remains a priority for the IASB. Reaching a conclusion on these issues, however, will require careful consideration of all issues and viewpoints that will occupy the Board for some time and could not possibly be completed by the 2005 deadline set in many jurisdictions. At the urging of users, insurers and regulators, we have developed IFRS 4 to provide interim guidance on insurance accounting practices without imposing on the insurance industry significant costs that could prove to be wasted when we complete the more comprehensive project.

The primary means of publishing International Financial Reporting Standards is by electronic format through the IASB's subscriber Website. Subscribers are able to access the standard published today through "online services". Those wishing to subscribe should contact:

IASCF Publications Department, 30 Cannon Street, London EC4M 6XH,
United Kingdom. Tel: +44 (0)20 7332 2730, Fax: +44 (0)20 7332 2749,
email: publications@iasb.org Web: www.iasb.org.

Printed copies of IFRS 4 *Insurance Contracts* (ISBN 1-904230-49-0) will be available shortly, at £15 each including postage, from IASCF Publications Department.

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Press enquiries:

Sir David Tweedie, Chairman, IASB,
telephone: +44 (0)20 7246 6410, email: dtweedie@iasb.org

Thomas Jones, Vice-Chairman, IASB
telephone: +1 203 834 7490, email: tjones@iasb.org

Kevin Stevenson, Director of Technical Activities, IASB,
telephone: +44 (0)20 7246 6460, email: kstevenson@iasb.org

Wayne Upton, Director of Research, IASB,
telephone: +44 (0)20 7246 6410, email: wupton@iasb.org

NOTES TO EDITORS

Summary of IFRS 4

1. The main requirements of IFRS 4 are:
 - The IFRS applies to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds, except for specified contracts covered by other IFRSs. It does not apply to other assets and liabilities of an insurer, such as financial assets and financial liabilities within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*. Furthermore, it does not address accounting by policyholders.
 - The IFRS defines an insurance contract as a “contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.”
 - The IFRS exempts an insurer temporarily (ie during phase I of this project) from some requirements of other IFRSs, including the requirement to consider the IASB’s *Framework* in selecting accounting policies for insurance contracts. However, the IFRS:
 - (a) prohibits provisions for possible claims under contracts that are not in existence at the reporting date (such as catastrophe and equalisation provisions).
 - (b) requires a test for the adequacy of recognised insurance liabilities and an impairment test for reinsurance assets.
 - (c) requires an insurer to keep insurance liabilities in its balance sheet until they are discharged or cancelled, or expire, and to present insurance liabilities without offsetting them against related reinsurance assets.
 - The IFRS permits an insurer to change its accounting policies for insurance contracts only if, as a result, its financial statements present information that is more relevant and no less reliable, or more reliable and no less relevant. In particular, an insurer cannot introduce any of the following practices, although it may continue using accounting policies that involve them:
 - (a) measuring insurance liabilities on an undiscounted basis.
 - (b) measuring contractual rights to future investment management fees at an amount that exceeds their fair value as implied by a comparison with current fees charged by other market participants for similar services.
 - (c) using non-uniform accounting policies for the insurance liabilities of subsidiaries.
 - The IFRS permits the introduction of an accounting policy that involves remeasuring designated insurance liabilities consistently in each period to reflect current market interest rates (and, if the insurer so elects, other current estimates and assumptions). Without this permission, an insurer would have been required to apply the change in accounting policies consistently to all similar liabilities.

- An insurer need not change its accounting policies for insurance contracts to eliminate excessive prudence. However, if an insurer already measures its insurance contracts with sufficient prudence, it should not introduce additional prudence.
 - There is a rebuttable presumption that an insurer's financial statements will become less relevant and reliable if it introduces an accounting policy that reflects future investment margins in the measurement of insurance contracts.
 - When an insurer changes its accounting policies for insurance liabilities, it may reclassify some or all financial assets as 'at fair value through profit or loss'.
 - The IFRS:
 - (a) clarifies that an insurer need not account for an embedded derivative separately at fair value if the embedded derivative meets the definition of an insurance contract.
 - (b) requires an insurer to unbundle (ie account separately for) deposit components of some insurance contracts, to avoid the omission of assets and liabilities from its balance sheet.
 - (c) clarifies the applicability of the practice sometimes known as 'shadow accounting'.
 - (d) permits an expanded presentation for insurance contracts acquired in a business combination or portfolio transfer.
 - (e) addresses limited aspects of discretionary participation features contained in insurance contracts or financial instruments.
 - The IFRS requires disclosure to help users understand:
 - (a) the amounts in the insurer's financial statements that arise from insurance contracts.
 - (b) the amount, timing and uncertainty of future cash flows from insurance contracts.
 - Entities should apply the IFRS for annual periods beginning on or after 1 January 2005, but earlier application is encouraged. An insurer need not apply some aspects of the IFRS to comparative information that relates to annual periods beginning before 1 January 2005.
2. The IASB is publishing IFRS 4 as three separate booklets. The first contains the mandatory requirements of the IFRS; the second contains the IASB's Basis for Conclusions, which sets out the IASB's reasoning behind the requirements in the IFRS; and the third consists of implementation guidance, including various illustrative examples.

About the IASB

3. The IASB, based in London, began operations in 2001. It is funded by contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations. The 14 IASB members (12 of whom are full-time) reside in nine countries and have a variety of professional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this

objective, the IASB cooperates with national accounting standard-setters to achieve convergence in accounting standards around the world.