



# Global Insurance GAAP

Update on the November 2009

IASB and FASB meetings



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Francesco Nagari

# Agenda

- Outcomes of this month's decision making meetings:
  - 18 November joint IASB/FASB meeting
  - 17 November IASB meeting
- Recap on the convergence towards a common accounting model
- Timetable and next steps

# Highlight of last week meetings

## IASB/FASB Joint meeting 18 November 2009

- New divergence of views on accounting for participating features
- IASB expressed an initial preference (9 against 6) for including the full participating feature in the measurement model
- FASB's initial preference (3 against 2) was for including in the measurement model only cash flows arising from actual declarations of policy dividends – expected dividends would go in equity

## IASB meeting 17 November 2009

### Recognition

- No decision reached
- Issue is the choice between two dates: risk inception and contract signing date

### Derecognition

- The Board agreed with the staff recommendation that insurance liabilities should be derecognised in line with the derecognition principles of IAS 39

# Details of IASB/FASB joint meeting – 18 November

## Participating insurance contracts – background on the issue

- The accounting issue relates to the presence of policy benefits that the insurer awards within constrained discretion
- Constraints come from the contractual basis to use a specified underlying (e.g. the performance of the assets in a specified participating fund)
- Two common sources of liability accounting are:
  - Legal obligations; and
  - Constructive obligations
- Insurers expect to award benefits which could be at levels of benefits beyond those recognised under these two bases
- How to treat participating features is probably the last substantial issue yet to be discussed by IASB and FASB

## Details of IASB/FASB joint meeting – 18 November (cont.)

### Participating insurance contracts (cont.)

- Two views were presented for the Boards to consider:
  - **View 1:** Do not separate out the participating feature from the host insurance contract, so the participating feature is measured and recognised as part of the insurance liability; or
  - **View 2:** Classify the participating feature based on whether it meets the definition of a liability. The staff proposed three different recognition options:
    1. The participating features are always recognised separately in equity;
    2. The participating feature is bifurcated, with the portion that meets the definition of a liability classed as a liability, and the remainder is equity; or
    3. The participating feature is recognised in equity or liabilities based on whether its characteristics are primarily those of equity or of liability.

# Details of IASB/FASB joint meeting – 18 November (cont.)

## Participating insurance contracts (cont.)

### View 1

- **Supporters** of View 1 indicated that treating the participating feature as a liability recognises the fact that these features are embedded in the insurance contract and (in many cases) will have no commercial justification on their own
- **Supporters** pointed out that View 1 avoids the complex calculations required for bifurcation of an insurance contract with participating features
- **Supporters** also argued that View 1 may lead to better performance management as policyholder benefits would be recognised in the performance statements in the same period as the results of the underlying participating funds

## Details of IASB/FASB joint meeting – 18 November (cont.)

### Participating insurance contracts (cont.)

#### View 2

- Majority of IASB members **disagreed** with View 2 on the basis that policyholder benefits are not equity and are not due to equity-holders
- As such, these benefits should not form part of the disclosed equity of the company.
- **Supporters** of View 2 argued that, to classify participating features that do not have any legal or constructive obligations to pay as liabilities would be a departure from the agreed Framework
- As such, they argue that the full amount should be recognised in equity until such time as the obligation to pay benefits becomes either legal or constructive, and then recognise the amount in equity

## Details of IASB/FASB joint meeting – 18 November (cont.)

### Participating insurance contracts (cont.)

#### Vote

- The Boards decided not to take a final decision on this question until additional information is prepared and presented by both staffs
- To give direction to the staff, the two Boards indicated tentative preferences:
  - The IASB tentatively voted for View 1, with a majority of 9 votes against 6
  - The FASB tentatively voted for View 2, but with a majority of 3 against 2
- As such, this has become another area of potential disagreement between the two Boards
- Once the staffs have presented additional information and the Boards have voted again, it may still be possible to achieve convergence.



# Details of IASB meeting – 17 November

## Recognition

- Staff recommended that, in line with IAS 39, an insurer should recognise an insurance contract when it becomes party to the contract (signing date)
- The Board could not reach a conclusion on this recommendation and raised a number of concerns and comments
  - defining the recognition principle by looking at whether the contract is viewed from an executory or derivative-like perspective is the correct approach to reach the decision
  - how should the insurer account for the events occurring between entering the contract and the start of the cover period
  - the Staff recommendation should be reconciled with legal frameworks when the insurer is bound by the act of making an irrevocable offer
- Some Board members proposed that ‘an insurer should recognise an insurance contract when it becomes party to the contractual provisions or legal or regulatory requirements’

## Details of IASB meeting – 17 November (cont.)

### Derecognition

- Staff proposed to align derecognition of IFRS 4 liabilities to the same principles under IAS 39 for financial liabilities
- IASB approved the proposal
- Issues that were not considered:
  - Derecognition of insurance contract assets (e.g. Long term regular premium contracts at the early stages of contract life)
  - Derecognition of latent claims liabilities
  - Derecognition principles when substantial modifications take place

# Timetable

## Commitment to an exposure draft in 2010

- Exposure draft issue date moves to April 2010
- Comment period closure moves to August 2010 – 4 Months
- Standard remains due in June 2011 – before substantial IASB membership changes

## Timetable considerations

- December joint meeting will be key
  - Comprehensive package including paper to converge single measurement model
  - Unbundling of non-insurance components
  - Presentation of premiums and benefits in the performance statement
- Potential policyholder accounting inclusion in the ED
- Service margin joint discussion to be held at future meetings
- Joint meetings have been/will be scheduled to finalise the discussions
- IFRS and US GAAP exposure draft will be published together

# Contact details

## Francesco Nagari

Deloitte Global IFRS Insurance Leader

+44 20 7303 8375

[fnagari@deloitte.co.uk](mailto:fnagari@deloitte.co.uk)

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[insurancecentreofexc@deloitte.co.uk](mailto:insurancecentreofexc@deloitte.co.uk)





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