



cutting through complexity

“The IASB’s tentative decision about IFRS 9 and reference to interaction with the insurance contracts project indicate that it is serious about its timeline for the insurance contracts project.”

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MOVING TOWARDS INTERNATIONAL INSURANCE ACCOUNTING

This edition of *IFRS Newsletter: Insurance* highlights the IASB’s discussion on the mandatory effective date of IFRS 9 and the FASB-only discussions on its insurance contracts project held in February 2014.

Highlights

Effective date of IFRS 9

- The mandatory effective date of IFRS 9 will be 1 January 2018.

Future direction of the FASB’s insurance contracts project

- The FASB will consider targeted improvements to current US GAAP and limit the scope to insurance entities.
- The decisions reached on the future direction of this project are likely to significantly limit further convergence between the IASB’s and the FASB’s insurance contracts projects.

A NEW FUTURE FOR THE INSURANCE CONTRACTS PROJECT

The story so far ...

The current phase of the insurance project was launched in May 2007, when the IASB published a discussion paper, *Preliminary Views on Insurance Contracts*. More recently, the IASB re-exposed its revised insurance contracts proposals for public comment by publishing the exposure draft ED/2013/7 *Insurance Contracts* (the ED) in June 2013. We do not anticipate a final standard before late 2014 or early 2015.

The FASB joined the insurance project in late 2008, issuing a discussion paper, *Preliminary Views on Insurance Contracts*, in 2010. More recently, the FASB issued its Proposed Accounting Standards Update, *Insurance Contracts* (the PASU, jointly referred to with the ED as 'the 2013 proposals') in June 2013.

Although the IASB and the FASB (the Boards) agree on many things, there have been key differences in their scope and measurement models.

Interaction with other standards

Throughout their redeliberations, the Boards considered many of the decisions made in the proposed financial instruments standards – including the way in which those standards might interact with the final insurance contracts standard – because the financial instruments standards and final insurance contracts standard cover a large majority of an insurer's statement of financial position.

They also considered whether other existing standards or future projects would sufficiently address the accounting for insurance contracts, including the proposals on revenue recognition. Much of the guidance contained in the 2013 proposals was designed to align with the Boards' joint proposals on revenue recognition.

What happened in February 2014?

During its discussions on the proposed financial instruments standard, the IASB tentatively decided that the mandatory effective date of IFRS 9 will be 1 January 2018. This tentative decision may make it easier for insurers to adopt the new IFRS financial instruments and insurance contracts standards at the same time.

At its meeting on 19 February, the FASB made the following decisions on the future direction of its insurance contracts project:

- for short-duration contracts, to focus its efforts on targeted improvements to disclosures, without changing the current US GAAP model for recognition and measurement; and
- for long-duration contracts, to work on targeted improvements to current US GAAP and then evaluate how those improvements compare with the building-block approach as determined by the IASB.

Consistent with US GAAP, the scope of the insurance contracts project will be limited to insurance entities and will not extend to other entities that issue insurance contracts. However, the FASB said that contracts written by non-insurers may be added back as the project progresses.

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EFFECTIVE DATE OF IFRS 9

The mandatory effective date of IFRS 9 will be 1 January 2018.

What's the issue?

In November 2013, the IASB officially removed the previous mandatory effective date of IFRS 9 *Financial Instruments* – i.e. 1 January 2015 – as part of IFRS 9 (2013) and tentatively decided that it would be no earlier than 1 January 2017.

This month, the IASB discussed the mandatory effective date again – focusing its discussions on the interaction with the insurance contracts project and the time required to implement the expected credit losses model.

What did the IASB staff recommend?

The IASB staff identified the following alternatives.

Alternative A	Annual periods beginning on or after 1 January 2017
Alternative B	Annual periods beginning on or after 1 January 2018

The IASB staff did not recommend either alternative. However, they believed that the following key criteria should be considered:

- the interaction of IFRS 9 with the insurance proposals;
- the lead time needed to implement the expected credit losses model to a high standard; and
- the need for improved financial reporting.

What did the IASB decide?

The IASB tentatively decided that the mandatory effective date of IFRS 9 will be 1 January 2018.

KPMG insight

This tentative decision may make it easier for insurers to adopt the new IFRS financial instruments and insurance contracts standards at the same time, reducing the likelihood that insurers will need to undertake two major programmes of change and the costs and complexities of implementation. The IASB's tentative decision and reference to the interaction with the insurance contracts project indicate that it is serious about its timeline for the insurance contracts project.

FUTURE DIRECTION OF THE INSURANCE CONTRACTS PROJECT (FASB-ONLY)

The FASB will consider targeted improvements to current US GAAP and limit the scope to insurance entities.

What's the issue?

In response to the PASU, comments were provided about the future direction that the FASB should take in developing the insurance contracts standard. Many respondents supported convergence between US GAAP and IFRS. However, others also stated that if convergence cannot be achieved, then only targeted improvements to US GAAP should be considered. Most respondents from the property and casualty industry opposed changes to current US GAAP for short-duration contracts, stating that the current guidance is superior to the guidance in the PASU.

Additionally, under current US GAAP only entities meeting the definition of an insurance entity are in the scope of insurance accounting guidance, whereas the PASU would have applied to all contracts meeting the definition of an insurance contract, including those issued by non-insurance entities. Many respondents outside the insurance industry did not believe that the scope should be extended to entities outside the insurance industry.

What did the FASB staff recommend?

Given the feedback received on the PASU, the FASB staff identified four alternatives for the overall direction of the insurance contracts project.

Alternative A	<ul style="list-style-type: none">• Continue with a comprehensive project on the accounting for insurance contracts• Consider the issues identified by the staff when redeliberating the guidance in the PASU
Alternative B	<ul style="list-style-type: none">• Continue with a project on the accounting for long-duration insurance contracts• Consider the issues identified by the staff related only to the building-block approach during redeliberations• Assess whether a second phase of the insurance contracts project should be added later to consider targeted improvements to short-duration insurance contract guidance in US GAAP
Alternative C	<ul style="list-style-type: none">• Consider potential targeted improvements to US GAAP identified by the staff
Alternative D	<ul style="list-style-type: none">• Postpone redeliberations until the IASB has issued a final insurance contracts standard

The FASB staff recommended Alternative A if the FASB wanted to achieve convergence with IFRS, and said that the property and casualty industry's concerns could be addressed during redeliberations. However, if the FASB believed that closer convergence is not feasible, then the staff recommended Alternative C.

The FASB staff also recommended that the project's scope should continue to include all entities that issue insurance contracts and should not be limited to insurance entities.

What did the FASB discuss?

The FASB considered the alternatives for long-duration and short-duration contracts separately.

- For short-duration contracts, FASB members expressed broad support for maintaining current US GAAP guidance and making targeted improvements only on disclosures.
- For long-duration contracts, some FASB members supported Alternative B because convergence would reduce the cost and complexity for international insurers complying with two different models. Other FASB members expressed the view that convergence was not attainable, and therefore preferred Alternative C.

Regardless of whether redeliberations start from Alternative B or C, the ultimate end point may be the same. Some FASB members acknowledged the need for one comprehensive model for long-duration contracts. There was no support expressed by FASB members for Alternatives A or D.

Although a number of FASB members noted that accounting standards should focus on transactions rather than the entities that are entering into those transactions, they felt that the scope should be limited to insurance entities, which is consistent with current US GAAP. FASB members also discussed the possibility of expanding the scope to include specific contracts not issued by insurance entities as the project progresses. One FASB member questioned whether the scope should include all financial institutions.

What did the FASB decide?

The FASB decided:

- for short-duration contracts, to focus its efforts on targeted improvements to disclosures, without changing the current US GAAP model for recognition and measurement; and
- for long-duration contracts, to work on targeted improvements to current US GAAP and then evaluate how those improvements compare with the building-block approach as determined by the IASB.

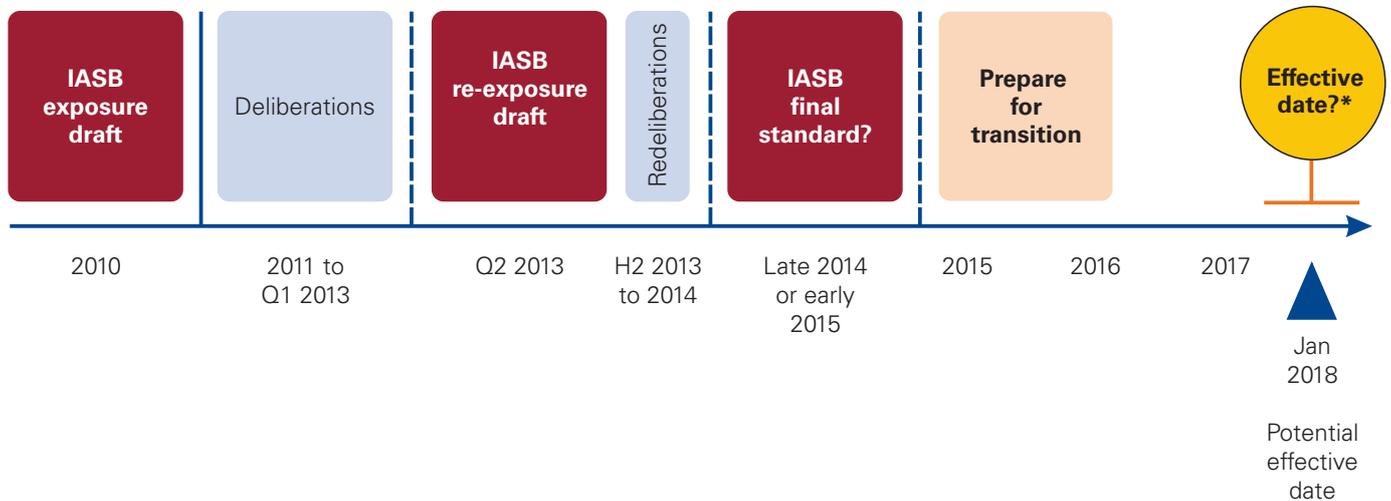
The FASB also decided that the scope of the insurance contracts project will be limited to insurance entities. However, contracts written by non-insurers may be added back as the project progresses.

KPMG insight

The decisions reached on the future direction of the project are likely to significantly limit further convergence between the IASB's and the FASB's insurance contracts projects.

PROJECT MILESTONES AND TIMELINE FOR COMPLETION

The IASB re-exposed its insurance contracts proposals and issued ED/2013/7 *Insurance Contracts* in June 2013. A final standard is not anticipated before late 2014 or early 2015.



* The effective date of the final IFRS is expected to be approximately three years after the standard is issued. The IASB staff, before receipt of comment letters, estimated that the issue date would be late 2014 to early 2015 – which, on this basis, would result in an expected effective date of annual reporting periods beginning on or after 1 January 2018. This appears to be the Board’s target, given the tentative decision that the mandatory effective date of IFRS 9 will be 1 January 2018.

Our suite of publications considers the different aspects of the project.

 KPMG publications	
1	New on the Horizon: Insurance contracts (July 2013)
2	Towards the Final Frontier: Business perspectives on the insurance accounting proposals (January 2014)

For more information on the project, including our publications on the Boards’ insurance proposals, see our [website](#).

The [IASB’s website](#) and the [FASB’s website](#) contain summaries of the Boards’ meetings, meeting materials, project summaries and status updates.

FIND OUT MORE

For more information on the insurance project, please speak to your usual KPMG contact or visit the [IFRS – insurance](#) hot topics page.

You can also go to the insurance pages on the [IASB](#) and [FASB](#) websites.

Visit our [Global IFRS Institute](#) to access KPMG’s most recent publications on the IASB’s major projects and other activities.



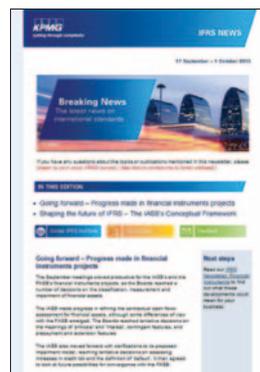
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Our [IFRS – revenue](#) hot topics page brings together our materials on the revenue project, including our *IFRS Newsletter: Revenue*.



Our [IFRS – leases](#) hot topics page brings together our materials on the leases project, including our *IFRS Newsletter: Leases*.



Our [IFRS Breaking News](#) page brings you the latest need-to-know information on international standards in the accounting, audit and regulatory space.

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