IFRS 9 for insurers: Stop press update – January 2016

The IASB issued an Exposure Draft ('ED') in December 2015 of proposed changes to IFRS 4 to address concerns around the requirement to implement IFRS 9 before the new insurance standard is effective. These concerns are:

- financial (increased P&L volatility in the period between the two standards being effective);
- difficulty in applying classification and measurement requirements before effects of new insurance standard are known:
- operational (effort required to implement two standards at different times); and
- ability of users to understand results with two sets of changes in a short period of time.

The proposed changes would allow reporting entities where the liabilities are predominantly arising from insurance contracts to defer IFRS 9 until the new insurance contracts standard is issued, or 2021 at the latest (the 'deferral approach').

The proposed changes would also allow insurers adopting IFRS 9 to remove from the income statement some of the volatility arising from IFRS 9 for certain assets ('overlay approach').

What does this mean for insurers?

- Assess whether 'predominant' criteria met and, if not, consider overlay approach and relevant designations to be made.
- Where 'predominant' criteria met, assess practical impact of disclosure requirements which are likely to require SPPI test even if deferring adoption of IFRS 9.
- Continue to monitor IASB developments, particularly the detail set out in the ED and the subsequent outcome of the consultation exercise.
- Continue to follow the IFRS 4 Phase II project in terms of the expected effective date and the implications for asset classification and measurement.