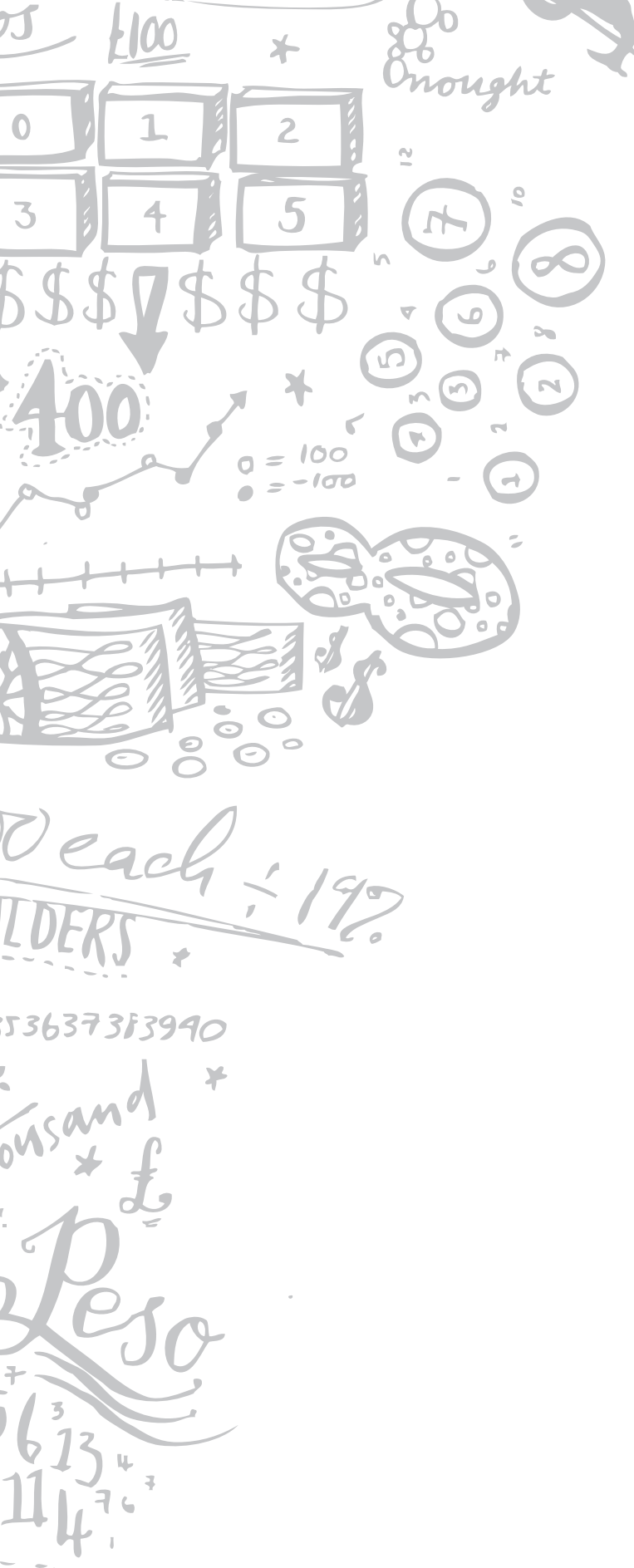




IFRS 9 for insurers – what to do now?

IASB proposes to move IFRS 9
mandatory effective date to 2015

August 2011



Overview

The International Accounting Standards Board (IASB) has proposed in its Exposure Draft (ED) *Mandatory Effective Date of IFRS 9* to move the mandatory effective date of IFRS 9 Financial Instruments to annual periods beginning on or after 1 January 2015. Earlier application would continue to be permitted. The IASB decided not to extend the relief from restatement of comparative figures currently provided by IFRS 9, which allows an entity not to restate comparative figures if it decides to early adopt the standard before 2012. The ED does not address other specific transition issues for IFRS 9, including the prohibition against applying IFRS 9 to items that have already been derecognised at the date of initial application, which the IASB had indicated it may reconsider.

The ED does not discuss how the effective date of IFRS 9 should relate to the effective dates of other projects but confirms the importance of the timing of the insurance project (IFRS 4 Phase II) when setting an effective date.

The ED poses questions for public comment on the proposed date of 1 January 2015 and the IASB's tentative decision not to change the current requirement in IFRS 9 on comparative figures. The comment period of the exposure draft closes on 21 October 2011.

What you need to know

- ▶ The IASB has published an ED proposing to defer the mandatory effective date of IFRS 9 to annual periods beginning on or after 1 January 2015, with earlier application permitted.
- ▶ The comment period of the ED closes on 21 October 2011.
- ▶ The IASB recently extended its time line for IFRS 4 Phase II and has not yet set a publication date for the insurance standard.

Background

IFRS 9, as currently drafted, must be applied for annual periods beginning on or after 1 January 2013, including the presentation of comparative figures.

On 19 October 2010, the IASB and the US Financial Accounting Standards Board (FASB) (collectively, 'the Boards') issued separate documents seeking input on the effective dates and transition methods for several new standards, primarily those that the Boards are developing jointly. The objective of the IASB document, *Request for Views on Effective Dates and Transition Methods*, was to gather feedback to help the IASB establish appropriate effective dates and transition methods for the several new IFRSs. The key themes of the feedback received were that constituents (including regulators) would prefer:

- ▶ Sufficient lead time after the finalisation of the last phase of IFRS 9.
- ▶ Extension of relief from the requirement to restate comparative figures until the mandatory effective date of IFRS 9.
- ▶ A single effective date for all the phases of IFRS 9, as well as the revised IFRSs on insurance contracts, revenue recognition, and leasing.

Many insurers asked the IASB to delay IFRS 9 to achieve alignment with IFRS 4 Phase II. The IASB recently extended its IFRS 4 Phase II timetable and now plans to make a decision on whether to re-expose or move to a review draft of the standard by the end of 2011, or during the course of 2012. It will set a publication date for a final IFRS 4 Phase II standard in due course. The deliberations on the insurance project are ongoing and the IASB has not yet made a decision on the effective date for the future IFRS 4 Phase II standard.

Impact of the proposed deferral of IFRS 9 for insurers

First of all, the delay of the IFRS 9 effective date gives insurers more time to prepare for IFRS 9. In addition to allowing insurers sufficient time to make the necessary system changes and to prepare adequately for transition, the proposed amendment would allow them to work towards implementing all three phases of the IAS 39 replacement project concurrently. This addresses a concern raised by preparers that they would like to be able to evaluate their decisions on classification and measurement (first phase), such as the use of the fair value option, in light of the new impairment (second phase) and hedge accounting requirements (third phase).

The change in the mandatory effective date will also help to address concerns about the delay of endorsement of IFRS 9 classification and measurement by the European Union (EU). This is particularly important for SEC filers who are required to report in accordance with IFRS as issued by the IASB. Absent this change and until IFRS 9 is endorsed by the EU, from 2013 these entities would be required to prepare two sets of financial statements: one set in compliance with IFRS as issued by the IASB for the SEC, including comparative information for the two previous years, and another in compliance with IFRS as endorsed by the EU. The proposal will also allow the IASB sufficient time to fulfil its prior intention to expose the FASB's final standard on classification and measurement of financial instruments for comment by its constituents.

Ultimately, the delay also creates the potential for aligning the adoption of IFRS 9 with the future IFRS 4 Phase II standard. In our publication *Measure by measure*, we described the impact for insurers of implementing new measurement requirements for assets under IFRS 9 and insurance liabilities under IFRS 4 Phase II. Because of their importance for an insurer's financial statements, implementing each of these two standards comes with challenges. Adopting them at the same time will not be a simple task, but having to adopt them at different dates would amplify those challenges and create new ones. Considering that the IASB does not expect to issue an IFRS 4 Phase II standard in 2011, it would be impossible to fully align both standards for adoption under the effective date currently in IFRS 9 (1 January 2013).

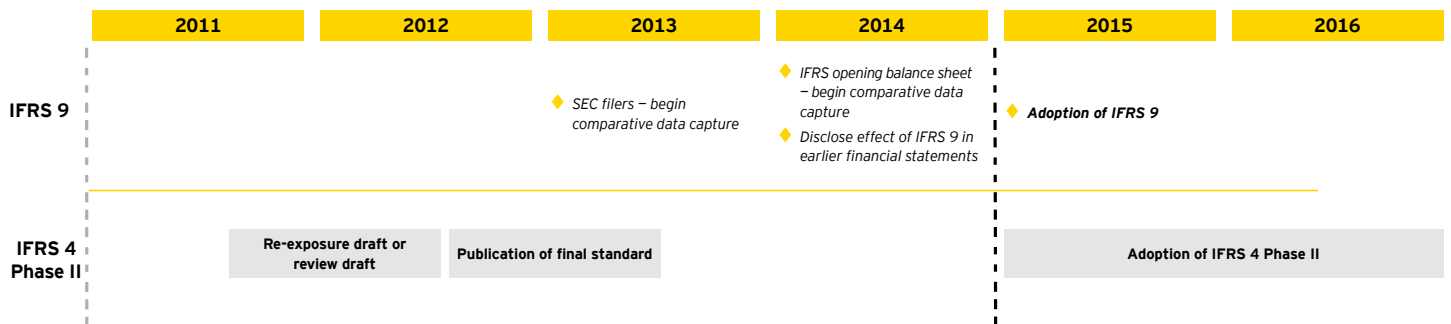


How we see it

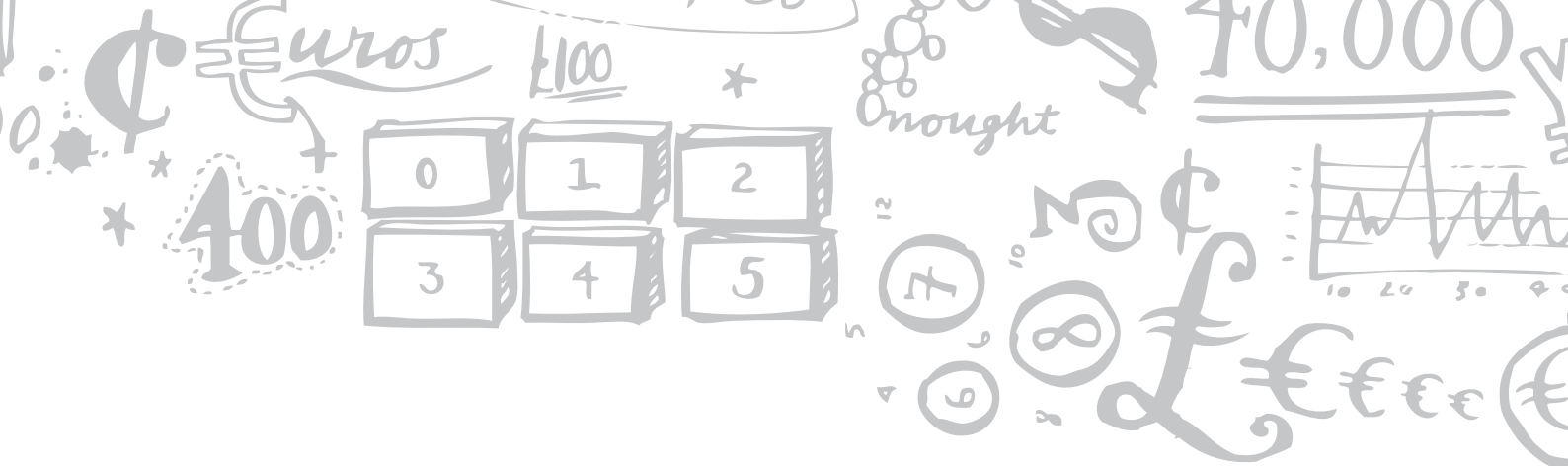
If adopted as proposed, this change will be welcomed by many insurers because it gives them more time to prepare for the implementation of IFRS 9 and synchronising it with IFRS 4 Phase II. In addition, it gives the IASB more time to move ahead on its insurance project. Aligning IFRS 9 and IFRS 4 Phase II based on the proposed effective date of 2015, will still be challenging. In particular, re-exposure of the insurance proposals may cause the issuance date of IFRS 4 Phase II to move to early 2013, which would mean less time for insurers to prepare for a synchronised implementation of IFRS 4 and IFRS 9 or, could even bear the risk of disconnecting the effective dates of IFRS 4 and IFRS 9 with resurfacing of the alignment issue.

The following is combined timeline of IFRS 9 considering the proposed 1 January 2015 as mandatory adoption date and a projection of timeline for completion of IFRS 4 Phase II:

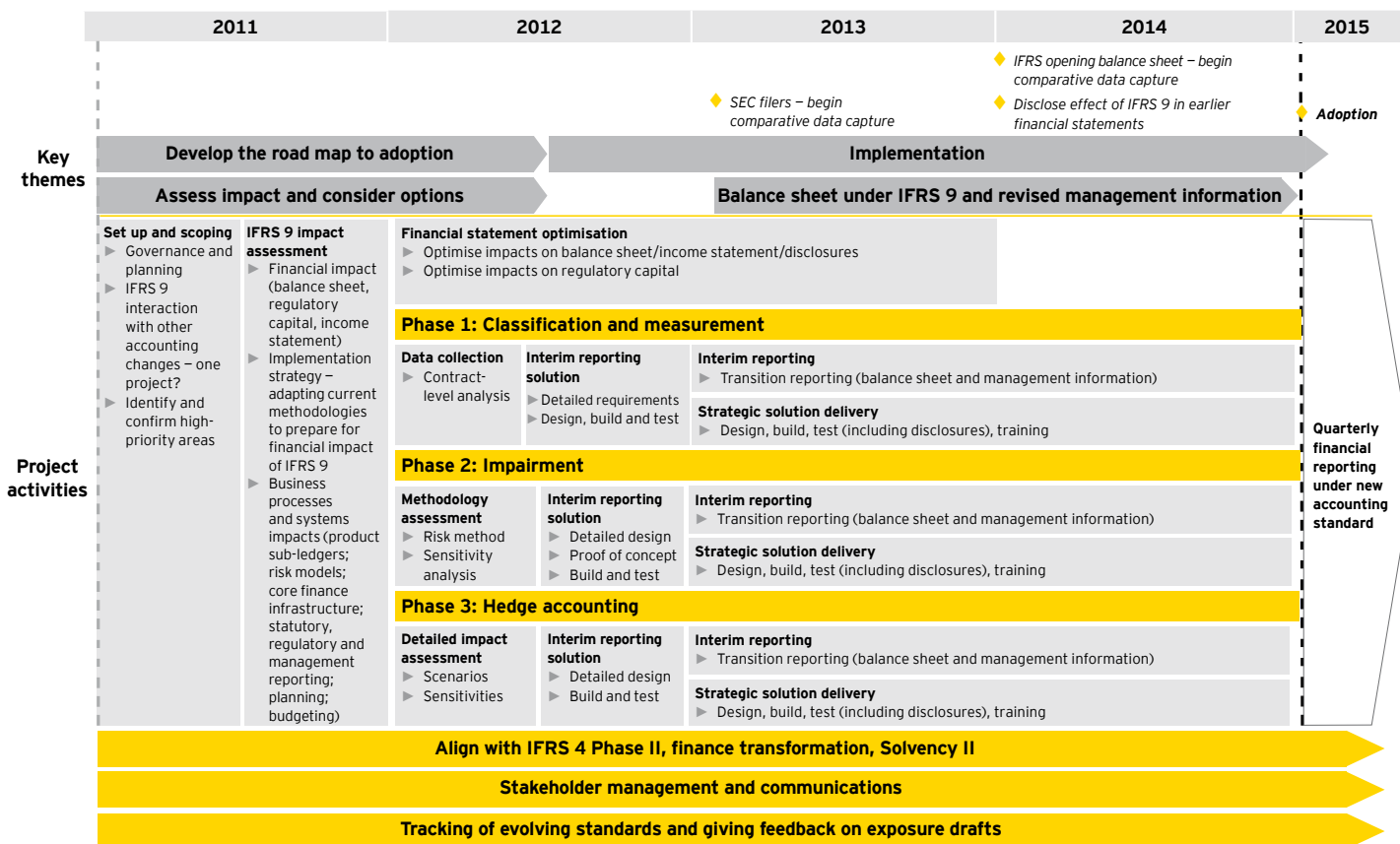
IFRS 9 and IFRS 4 Phase II timeline



The proposed delay in the effective date of IFRS 9 may lead some companies to defer thinking about implementation issues, but we strongly encourage companies to closely monitor the developments for IFRS 9 and IFRS 4 Phase II and continue their preparations. The combined introduction of IFRS 4 and IFRS 9 will have a major impact on financial statements, key performance measures and tax. Synchronising both standards by classifying investments in a way that is consistent with the measurement of insurance liabilities could mean that key decisions will have to be taken early on. Further, significant systems and process changes required by IFRS 9 may take a number of years to be completed. For SEC-regulated entities, even with a 2015 effective date, the first comparative period begins in only 17 months time, on 1 January 2013.



What does your IFRS 9 implementation road map look like?



Our experience working with insurers that are currently assessing the impact of IFRS 9 suggests that it will take a significant amount of time to implement the changes in a robust and strategic manner. Many insurers have included IFRS 9 implementation as a work stream within a large-scale accounting and regulatory change project. Many entities are spending time during 2011 to strategically plan the implementation, particularly establishing a link with the proposed measurement for insurance contracts under IFRS 4 Phase II.



How Ernst & Young may be able to help

Ernst & Young can bring its multi-disciplinary teams of accounting, tax, systems and IT professionals to your company to assist in assessing what IFRS 9 and IFRS 4 Phase II mean to you and how to adopt them these standards. In the table below, we outline issues and steps you should consider concerning the implementation of IFRS 9 and the assessment IFRS 4 Phase II, and indicate how Ernst & Young may be able to help you from initial assessment through adoption.

Issues and steps	How Ernst & Young may be able to help?
Gain a general understanding of the new or proposed accounting standards.	<ul style="list-style-type: none"> ▶ Design and deliver a training session for company personnel on the accounting implications of the new or proposed standards. ▶ Share insights of IASB views, including interpretations.
Perform a preliminary assessment of the impact of the proposal on the company's financial statements and regulatory capital.	<p>Advise and provide input into:</p> <ul style="list-style-type: none"> ▶ Gathering necessary scoping information to implement the new or proposed standards ▶ Calculating the income statement impact of implementing the new or proposed standards ▶ Assessing impact on key financial ratios and performance measures ▶ Identifying shortfalls in available information to implement the new or proposed standards ▶ Assessing impact on regulatory capital <p>For non-audit clients, Ernst & Young can provide support, through the use of an automated tool, to determine the characteristics of financial assets for IFRS 9 classification. This tool is able to run queries through large data sets and identify features to help determine fair value classification using information from external data vendors. The use of this tool can reduce the time needed to analyse instruments that would require fair value classification based on characteristics of the instrument. This automated approach is also available for use on contractually linked instruments. For audit clients, Ernst & Young can use the tool to evaluate assessments made independently by company management.</p>
Benchmark the company against peers and others in the industry.	<ul style="list-style-type: none"> ▶ Provide observations of how others are approaching the new or proposed standards, problems they are identifying and solutions developed. ▶ Assist in the evaluation of peers, competitors and industry disclosures and expected impact on the financial statements.
Assess processes for data collection, internal controls and IT systems.	<ul style="list-style-type: none"> ▶ Provide observations and insights based on leading practices regarding ways the company could design its business processes, IT systems, and internal controls to capture information necessary to apply new or proposed standards. ▶ Perform an impact assessment of IFRS 4 phase II on company's business processes and systems by using Ernst & Young web-based 'Gap-Analyser' tool. ▶ Provide criteria to consider in selecting IT packages, and assist in the selection process.
Assess tax positions relating to the new or proposed accounting standards.	<ul style="list-style-type: none"> ▶ Assist in analysing tax positions arising from adopting the new or proposed standards, reducing tax exposure, and determining tax effects of any accounting changes.
Plan for ultimate implementation of the new or proposed standards.	<ul style="list-style-type: none"> ▶ Advise on the implementation of the new or proposed standards using an established methodology. ▶ Advise regarding your project maintenance and planning, including timeline, tasks, and resource allocation.
Advise management during the implementation.	<ul style="list-style-type: none"> ▶ Advise management where the new or proposed standards require careful use of judgment. ▶ Review and provide input into accounting manuals and policies selected by management. ▶ Provide coordinated support to you of the Ernst & Young subject-matter resources (Regulatory, Tax, Finance Transformation, etc.) on a global basis.
Communicate effect of implementation to stakeholders – analysts, regulators, shareholders.	<ul style="list-style-type: none"> ▶ Advise on developing a communication plan. ▶ Advise on drafting communications.



Contacts

EMEIA Financial Services FAAS Leader

Tara Kengla
+44 20 7951 3054
tkengla@uk.ey.com

EMEIA Financial Services IFRS Leader

Michiel van der Lof
+31 88 40 71030
michiel.van.der.lof@nl.ey.com

EMEIA country contacts

Belgium

Sylvie Goethals
+32 2 774 9518
sylvie.goethals@be.ey.com

Peter Telders
+32 2 774 9168
peter.telders@be.ey.com

Channel Islands

Chris Matthews
+44 1534 288 610
cmatthews@uk.ey.com

France

Amaury de La Bouillierie
+33 1 46 93 65 80
amaury.de.la.bouillierie@fr.ey.com

Loic Moan
+33 1 46 93 42 02
loic.moan@fr.ey.com

Germany

Edgar Loew
+49 6196 996 29011
edgar.loew@de.ey.com

Martin Gehringer
+49 6196 996 12427
martin.gehringer@de.ey.com

Ireland

Vincent Bergin
+353 1 2212 516
vincent.bergin@ie.ey.com

Italy

Ambrogio Virgilio
+39 027 221 2510
ambrogio.virgilio@it.ey.com

Luxembourg

Aida Jerbi
+352 42 124 8614
aida.jerbi@lu.ey.com

Netherlands

Peter Laan
+31 88 40 71635
peter.laan@nl.ey.com

Christine Holmes
+31 88 40 773876
christine.holmes@nl.ey.com

Spain

Manuel Martinez Pedraza
+34 91 572 7298
manuel.martinezpedraza@es.ey.com

Jose Carlos Hernandez Barrasus
+34 91 572 7291
josecarlos.hernandezbarrasus@es.ey.com

Switzerland

Stefan Schmid
+41 58 286 3416
stefan.schmid@ch.ey.com

John Alton
+41 58 286 4269
john.alton@ch.ey.com

United Kingdom

Sarah Williams
+44 20 7951 1703
swilliams10@uk.ey.com

Tony Clifford
+44 20 7951 2250
aclifford@uk.ey.com

Kevin Griffith
+44 20 7951 0905
kgriffith@uk.ey.com

Other FAAS Insurance Contacts

Americas

Carol Carlson
+1 617 375 1431
carol.carlson@ey.com

Asia Pacific

Yin Toa Lee
+852 2849 9283
yin-toa.lee@hk.ey.com

Japan

Ryuichi Nagano
+81 3 3503 1140
nagano-rych@shinnihon.or.jp

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 141,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit www.ey.com

Today's global enterprises need help understanding and addressing the effects of their business decisions on complex accounting and financial reporting requirements. Meeting this challenge requires not only technical resources, but advisors who understand the issues companies face in their industries and who have the experience to provide practical, effective services. Ernst & Young's FAAS professionals are deeply experienced in offering up-to-date insight into standard setting and regulatory developments, along with relevant industry perspectives. And to help companies receive the market, technical and regulatory insights they need, we can coordinate global teams of highly qualified resources in accounting, tax, systems, IT, and transaction advisory. It's how Ernst & Young makes a difference.

© 2011 EYGM Limited.
All Rights Reserved.

EYG no. AU0940



In line with Ernst & Young's commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.