



**International Association of Insurance Supervisors**

## **Survey by Accounting Subcommittee on Impact of Application of IFRS 4<sup>1</sup>**

### **— Explanatory Notes**

#### **1. Background**

The International Financial Reporting Standards (“IFRSs”) which have been applied in a number of jurisdictions since the beginning of 2005 appear generally to be different from previously-applied accounting standards, while the degree of difference varies from jurisdiction to jurisdiction. Since the application of IFRSs may cause significant changes in the financial statements of insurance companies, it may consequently have a significant impact on insurance supervision if the financial statements used for supervisory purposes are based upon IFRSs without appropriate adjustments.

Other international financial-sector supervisory organisations have already addressed this kind of issue. The Basel Committee on Banking Supervision has considered the impact of IFRSs (mainly IAS 39 ‘Financial Instruments: Recognition and Measurement’) on the adequacy of regulatory capital of banks, and issued certain announcements from the banking supervisory perspective in 2004 (June 8, July 20 and December 15). In the European Union, the Committee of European Insurance and Occupational Pensions Supervisors (‘CEIOPS’) has addressed this from the insurance supervisory perspective with a view to analysing the impact of the introduction of IFRSs and to identifying the supervisory countermeasures that may be needed to the use of IFRS accounting data for prudential purposes (“prudential filters”), and issued its *Recommendations regarding the Implications of the IAS/IFRS Introduction for the Prudential Supervision of Insurance Undertakings* in September 2005.

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<sup>1</sup> While this survey considers primarily the impact of IFRS 4, it also includes the impact of related IFRSs, in particular those with most relevance to accounting by insurers.

In view of these discussions, compiling information on the status of application of IFRSs may be of substantial benefit to each jurisdiction which adopts IFRSs, in respect of:

- their understanding of the implications of applying IFRSs; and
- their consideration of the appropriate supervisory reaction thereto

in order to enhance effective insurance supervision.

## 2. Purpose

The primary purpose of this survey is to collect and analyse information on the status of the application of IFRSs in IAIS member jurisdictions, including their impact and the reaction by insurance supervisors, and to provide this as basic information to members.<sup>2</sup> Furthermore, if possible and appropriate, the extent of the analysis will be extended to bring out points to which insurance supervisors particularly pay attention upon the application of IFRSs. For example, this analysis may include indicating possible models for measures to adjust IFRS accounting data for prudential purposes (“prudential filters”).

## 3. Scope

The survey applies to the implementation of IFRSs by insurers in their public financial reporting. It considers primarily the impact of IFRS 4 (“Insurance Contracts”), but also includes the impact of related IFRSs, and those with particular relevance to accounting by insurers.

The survey is being conducted by the Accounting Subcommittee upon members of the subcommittee and members of the Technical Committee to whom the implementation of IFRSs is relevant.

## 4. Structure

This survey consists of two parts. The first part, ‘*Status of Application of International Financial Reporting Standards (“IFRSs”)*’, is designed to inquire into the general status of application of IFRSs in each relevant jurisdiction. The jurisdictions, which respond in the first

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<sup>2</sup> Whilst the survey being conducted by CEIOPS will look at the impact of the implementation of IFRS within the EU, IFRSs are being adopted far more widely than just in the EU. Therefore the IAIS survey is expected to obtain a broader assessment of the impact as it should include responses from jurisdictions outside of the EU.

part to indicate that IFRSs are applied to insurance companies, are then asked to respond to the second part '*Status of Application of IFRS 4 and Supervisory Reaction*'. The second part is designed to inquire into the specific status of the application of the main features of IFRSs such as IFRS 4 '*Insurance Contract*' to insurance companies and products, including their impact and the insurance supervisory reaction. The basic composition of questions is: (a) changes to local standards upon the introduction of IFRS 4, (b) the impact of application of IFRS 4, and (c) the measures taken from the viewpoint of the insurance supervisor. This basic composition is adjusted to the extent necessary by the nature of the various features of IFRS 4. Finally, there is a general question relating to IAS 39 and a further question for any other standard(s) which have a significant impact.

## **5. Survey procedures**

The template for the survey was finalised by the Accounting Subcommittee at its meeting on September 2005. It would then be circulated for completion by members of the Accounting Subcommittee and the Technical Committee, following the meeting of the Technical Committee on 18 October. Responses to the survey will be requested by 31 December 2005, and these should be sent to the Accounting Subcommittee Chair and Secretariat for compilation. The results will then be discussed by the subcommittee and a report produced. The Accounting Subcommittee will also consult with the Technical Committee in finalising the report.

## **6. Publication of results**

The survey is expected to be completed during the first quarter of 2006. The report, which will include the consolidated results and analysis arising from the survey, including the impact of application of IFRSs and the supervisory reaction thereto, will be provided to members and published on the IAIS website. The individual responses of each jurisdiction will be also published, excluding portions which are designated by each jurisdiction specifically to be confidential.

## **7. Possible development in the future**

If necessary and appropriate, consideration may be given to carrying out an additional survey on the quantitative impact of the application of IFRSs after the end of the 2005 accounting

year, once the financial statements for 2005 based on IFRSs become available. This might result in a further, more quantitative, report issued at a later date.