The implications of International Financial Reporting Standards (IFRS) for New Basis Life Assurance Business

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Executive Summary

Given that the New Basis Business Case I computation of a Life Assurance company is accounts-based it follows that shareholder gains on investments chargeable under Case I should also follow the accounts. The Schedule 17A of the Taxes Consolidation Act (TCA) 1997 transitional rules on changeover to International Financial Reporting Standards (IFRS) will apply.

1. Accounting for Insurance Contracts as Investment Contracts

Under IFRS, certain unit-linked and similar contracts are treated as investment contracts, so that they are not accounted for in the Income Statement but rather as Balance Sheet items. Prior to the move to IFRS, unit-linked premiums and claims were regarded as trading receipts and expenses respectively and reflected in the technical account. Any end of year surplus was transferred to unit-linked policyholders and reflected in the Balance Sheet as 'Unit Linked Policyholder Liabilities'. Post IFRS unit-linked premiums are treated as investments made and repaid (much the same as deposits in a bank). The current value of these investments is carried in the Balance Sheet as a separate liability on 'Investment Contracts'. The change is one of form as opposed to substance and as such has no impact on the trading profit of the company. As a consequence of this the Case I computation will continue to be based on accounting profit, but within the scope of IFRS. Any transitional adjustments will be dealt with under Schedule 17A TCA 1997, ensuring the elimination of any double taxation or non-taxation.

2. Valuation Issues Case I

There may be instances in which "fair value" under IFRS does not equal market value under local Generally Accepted Accounting Principles (GAAP). For example, IFRS may require a bid price valuation whereas existing Irish GAAP would use a mid price valuation. The items in the technical account would relate to policyholders and therefore would be taken care of in the taxation of policyholders. Any adjustments would be referable to shareholders' interests and therefore the transitional measures in paragraph 4 of Schedule 17A TCA 1997, including the 'bed and breakfast' provisions in paragraph 4(5) of Schedule 17A TCA 1997, would have application in that regard only.