

# Beyond the GAAP

Mazars' newsletter on accounting standards



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## Editorial

After 8 years of good and loyal service, Beyond the GAAP adopts the colours of the new Mazars visual identity.

Although this new presentation has changed, you will find all the usual features in this edition. We will continue to provide a monthly summary of news about European and international accounting standards in a simple accessible manner and without bias.

This month, we have decided to provide an update on the future standard on insurance contracts, IFRS 4 phase II. We have done our best to make it accessible; it is up to you to tell us if we have succeeded!

Enjoy your reading!

Michel Barbet-Massin      Edouard Fossat

# IFRS Highlights

## IFRS 7 - Transfers of financial assets: an amendment on servicing arrangements

Following a request from the IFRS Interpretations Committee, the board of the IASB confirmed in February 2013 that the IFRS 7 amendment on disclosures on the transfers of financial assets indeed intended to include servicing arrangements carried out by the disposing entity as 'continuing involvement' within the meaning of IFRS 7. The board's position rests on the assumption that servicing agreements generally represent variable remuneration reflecting the performance of the transferred asset.

Following this discussion, the IFRS IC has put forward a draft amendment to the Application Guidance of IFRS 7 in order to specify that a servicing contract constitutes continuing involvement under IFRS 7 if it gives the transferring entity an interest in the performance of the transferred asset.

During its October 2013 meeting, the Board decided to include this amendment in the Annual improvements – 2012-2014 cycle.

During this meeting, the Board also decided to include in the Annual improvements another amendment to IFRS 7 in order to specify that disclosures on offsetting financial assets and financial liabilities are not mandatory in condensed interim financial statements (see Beyond the GAAP July-August 2013: Highlights).

## Macro-hedging: publication of the Discussion Paper due soon

On 31 October 2013, the IASB announced the conclusion of its preliminary work on the publication of a Discussion Paper on macro-hedge accounting, now expected in the first quarter of 2014. Preparers and other stakeholders will be invited to submit their comments during the six months period following the publication of this document.

Readers will remember that macro-hedging, which mainly concerns financial institutions, was excluded from the IFRS 9 project and will be the subject of a separate standard. While awaiting the finalisation of these standard, preparers applying IFRS 9 will be able to opt to retain the IAS 39 rules on hedge accounting.

## IAS 19 - Discount rates on post-employment benefits

During the October meeting, and at the request of the IFRS Interpretations Committee, the IASB discussed an amendment to IAS 19 on the determination of the discount rates in a currency area. The amendment is for inclusion in the Annual Improvements - 2012-2014 cycle.

The exposure draft for this Annual Improvements is expected before the end of the year.

The Board will propose to amend IAS 19 to clarify that, in determining the discount rate, an entity should include High Quality Corporate Bonds (HQCBS) issued by entities in other countries, provided that these bonds are issued in the currency in which the benefits are to be paid. Consequently, the depth of the market in HQCB should be assessed at the currency level and not at the country level (for example, the euro zone).

# European Highlights

## ESMA: 14th extract from the database of enforcement

On 29 October ESMA, the European Securities and Markets Authority, published the 14th extract from its database of enforcement. ESMA published 12 decisions taken by the European regulators, addressing the following topics:

- Derecognition of financial assets and liabilities (IAS 39)
- Classification of financial assets as loans and receivables (IAS 39)
- Hedge accounting for an embedded floor in a loan portfolio (IAS 39)
- Nature and extent of risks arising from financial instruments (IFRS 7)
- Cash flow classification of amounts paid to vary the notional amount of a commodity contract (IAS 7)
- Presentation of cost of inventories in cost of goods sold (IAS 1)
- Scope of consolidation (IAS 27)
- Identification of intangible assets in a business combination (IFRS 3/IAS 38)
- Contingent payments to acquire a non-controlling interest (IAS 32)
- Deferred tax asset arising from tax losses carried forward (IAS 12)
- Segment disclosures – Information about geographical areas (IFRS 8)
- Disclosure of new standards that have been issued but are not yet effective (IAS 8).

This 14th extract from the ESMA database of enforcement can be consulted at:

<http://www.esma.europa.eu/page/IFRS-Enforcement-0>

## ▪ Europe puts pressure on the IASB... which is digging in its heels

The European Parliament wants the IASB to restore the specific reference to Prudence in its Conceptual Framework and has suggested cutting its funding (which represents about a third of the standard setter's total budget) if it refuses. The Parliament is hoping to carry more weight in the IASB's decisions.

This threat coincides with the IASB's publication, in July 2013, of a Discussion Paper on the Conceptual Framework, a revised version of which is expected for 2015. Prudence is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets of income are not overstated and liabilities or expenses are not understated.

The concept of prudence was dropped in 2010 to facilitate convergence with US standards. Critics had claimed that transactions and economic events should be reflected in the accounts in as neutral a way as possible, without prioritising a concept of prudence that introduced a negative bias.

The IASB's response was not long in coming. During the 14 October meeting of the IFRS Advisory Council, IASB President Hans Hoogervorst, described the position of the European Parliament as very worrying, because it threatened the independence of the IASB by tying its funding to important changes to the Conceptual Framework. He added that IASB could not agree to reintroduce the Concept of Prudence simply because its funding depended on it, not least because the debate would be "tied in to a political discussion" about funding. He nevertheless reminded listeners that:

- in practice, prudence is still widely present in IFRSs, and
- the question of whether the Conceptual Framework would explicitly mention the concept of prudence remained open, inter alia at the request of the national standard setters in the UK (ASB), France (ANC), Germany (ASCF), and Italy (OIC), and of EFRAG.

# A Closer Look

## Impairment of financial assets (Phase II of IFRS 9) – IASB clarifies some concepts of the recent exposure draft

During the 31 October meeting, the IASB continued to discuss the future model for the impairment of financial instruments that will be based on expected credit losses. The board decided to clarify the practical application of some of the key principles and concepts of the exposure draft on Phase 2 of IFRS 9 published in March 2013.

### 1. Timing of the transfer between categories 1 and 2 triggering the impairment on the basis of lifetime expected losses (assessment of significant deterioration of credit quality)

The proposal that assets should be transferred from category 1 to category 2 in the event of a significant increase in credit risk (as evidenced by an increased probability of default since the date of initial recognition) has been confirmed. The analysis of changes to the risk level may take place on a portfolio basis, provided that the financial instruments in that portfolio had a similar credit risk on initial recognition. The decision on the transfer between categories could then be taken by comparing the credit risk of financial instruments in that portfolio at the reporting date with the initial maximum credit risk of that portfolio.

The standard will also specify that the assessment of significant increases in credit risk can be implemented through a counterparty assessment (and not instrument by instrument) as long as a transfer assessment on this basis achieves the objectives of the future standard.

Transfer from category 2 to category 1 is also possible when the conditions for category 2 are no longer met.

The IASB has confirmed that it will retain the rebuttable presumption that there should be a transfer to category 2 when contractual payments are more than 30 days past due.

### 2. Instruments that have low credit risk at the reporting date

Readers will recall that the exposure draft contained an exemption from assessing credit risk changes for financial assets that have low credit risk at the reporting date, maintaining them in category 1.

The future standard will expand upon what is meant by “low credit risk”. It will be stated that it is unnecessary to have external ratings, and that this notion refers to instruments with a low risk of default and whose issuer has a strong capacity to meet its obligations in the near term.

The IASB will also clarify that instruments which cannot be described as having low credit risk will not be automatically transferred to category 2, but should be subjected to testing on the basis of the criterion of changes in their credit risk since initial recognition.

### 3. Measurement of expected credit losses and the amount of impairment loss allowance

The board confirmed that expected credit losses should be measured using the best information that is reasonably available at the reporting date, including historical, current and prospective supportable information.

The amount of expected credit losses can be determined on the basis of regulatory models, but should be adjusted, if need be, to meet the objectives of IFRS 9, due to possible divergences between the accounting approach and prudential approach.

Finally, the board confirmed that the exposure draft’s proposals concerning modified instruments will apply, regardless of the reason for the modification, and that, like other assets, modified instruments would be transferred from category 2 to category 1 if they meet the conditions for doing so.

The IASB will continue to deliberate on Phase 2 of IFRS 9 during the November meeting.

# A Closer Look

## Revenue Recognition: the broad principles of the future standard are known

In February 2013, the IASB and the FASB announced that they had completed discussions of the broad principles of the future standard on Revenue Recognition. In practice, several months' more work were necessary for the two boards to finalise some principles of the future standard.

In particular, the subjects of constraining the cumulative amount of revenue from ordinary activities recognised when part of the selling price is variable, and of the assessment of customer credit risk at various stages of the recognition model proposed, have continued to be the subject of debate in recent weeks. However, it appears that October's deliberations have brought debate to an end on all the major topics.

### 1. Constraint on estimates of variable consideration

The boards tentatively decided that the objective of the constraint would be that an entity should include an estimate of the variable consideration in the transaction price if it is 'highly probable' that there will be no reversal of the cumulative revenue recognised.

However, there will be an exception to this principle in the case where an entity supplies intellectual property rights to a customer under licence, and the customer promises to pay an additional royalty based on its subsequent sales or use of a good or service. In this instance, an entity should include consideration from the sales - or usage-based royalty in the transaction price when the uncertainty has been resolved (that is, when the subsequent sales or usage occur).

This exception is in line with the exposure draft of November 2011.

### 2. Collectability

The two boards have confirmed their previous position on collectability, namely that the transaction price is the amount of consideration to which the entity is entitled in exchange for the goods or services promised to the customer, an amount that is not adjusted for customer credit risk.

The IASB and the FASB have also decided to include an explicit collectability threshold among the conditions which must be met before an entity can apply stage 1 of the proposed revenue model to a contract with a customer. To meet this condition, which represents a change since the November 2011 exposure draft, and thus to be able to apply this revenue model, an entity must conclude that it is "probable" (that is, in IFRS terms, more probable than improbable) that it will collect the consideration to which it will be ultimately entitled in exchange for the goods or services that will be transferred to the customer.

### 3. Expected date of publication and effective date

Given these recent redeliberations, the timetable for this project has been revised. The final standard is now expected in Q1 2014. However, it would continue to apply for reporting periods beginning on or after 1 January 2017.

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# A Closer Look

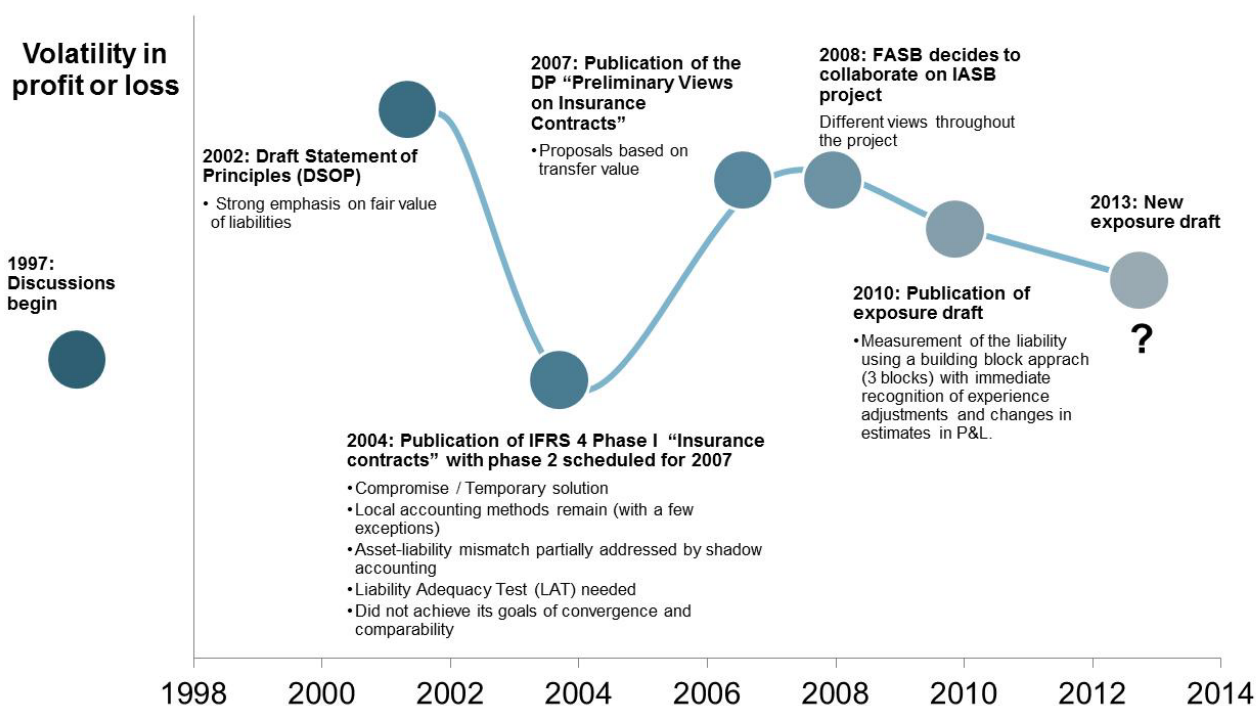
## Insurance contracts project IFRS 4 phase II - latest developments

The IFRS insurance contracts project is still in the pipeline after more than ten years' work. The delay in drafting this standard reflects the divergent opinions expressed at different stages in the project, and the complexity of ensuring consistency with the corpus of standards.

This study, after a brief reminder of the background to the project and the key points of the approach that have emerged since the July 2010 exposure draft, will present the main changes brought about by the June 2013 exposure draft and the main responses to the call for feedback.

### 1. Project background

2002 marked the starting point of the project, with the



The first phase was intended to be a temporary solution. Adopted in March 2004, IFRS 4 phase 1, as it is still known, retains the main measures of local standards for the measurement of liabilities (with the exception of the equalisation provisions and the provision for liquidity risk); the majority of assets are measured at fair value in accordance with IAS 39.

This compromise did not address the issue of comparability across local standards, which contain significant differences, leading to different level of technical reserve.

<sup>1</sup> The assets/liabilities mismatch is bound to the remeasurement of financial assets representing insurance obligations at fair value whereas these obligations are not remeasured on the liabilities side. This mismatch is mitigated by a profit-sharing mechanism: this corresponds to the sharing, between the insurer and the policyholders, of the technical and financial gains in application of local standards. The remeasurement of assets at fair value is corrected by the allocation of a part of the remeasurement of the assets to policyholders via deferred participation (shadow accounting)

publication of the Draft Statement of Principles – one of the first stages in the process of drafting IFRSs. It quickly became apparent that it would be difficult to reach agreement on a standard acceptable to all the stakeholders. This difficulty arose from the cross-cutting nature of IFRSs, which aim to respect the fundamental principles of transparency, comparability and relevance, and from the characteristics of the insurance sector itself, with a wide variety of contracts and business models and diverse existing accounting models.

Faced with the adverse reactions of many players to a draft text recommending the fair value measurement of liabilities, judged to be complex and volatile, the IASB decided to allow time for reflection by dividing the project into two phases.

Nevertheless a liability adequacy test is required by the Standard.

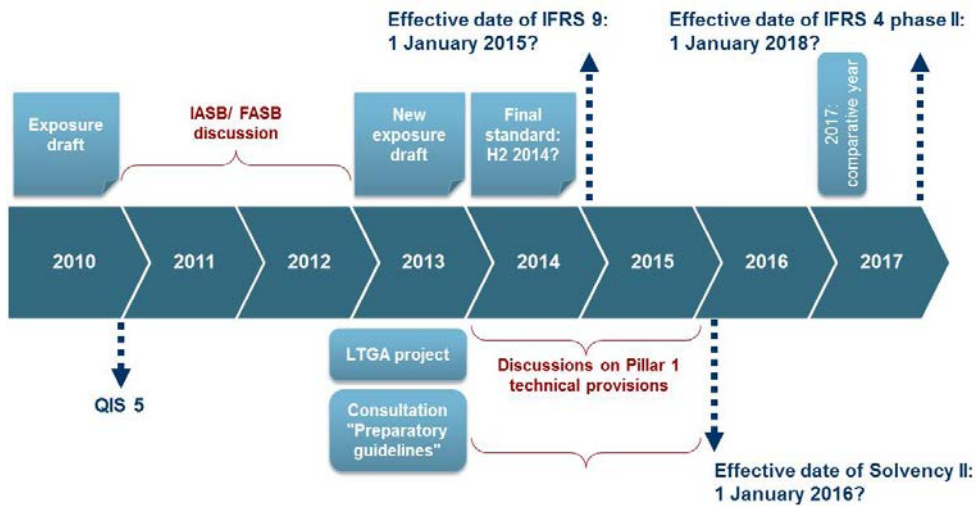
The application of IFRS 4 phase 1 also entails a de facto inconsistency between the assets recognised under IAS 39, mainly at fair value, and liabilities accounted for under local standards, generally meaning at amortized cost in France. This inconsistency is only partly resolved by shadow accounting<sup>1</sup> for life insurance companies.

The impact of the application of IFRS 4 phase 1 was ultimately limited, with the exception of shadow accounting.

The second phase of the project, launched in May 2007 with the publication of a Discussion Paper proposing accounting for liabilities at their transfer value (the current exit value measuring the liability on the total amount of a transfer in a theoretical market between insurers), is still under discussion. It has been influenced, but also delayed, by several accounting and regulatory projects (drafting IFRS 9, convergence with the FASB, Solvency 2 in Europe, the revision of IAS 37 on liabilities, the Revenue Recognition project, etc.).

The work since the publication of the Discussion Paper on phase II of IFRS 4 led to the publication of an initial exposure draft in July 2010 (ED/2010/8).

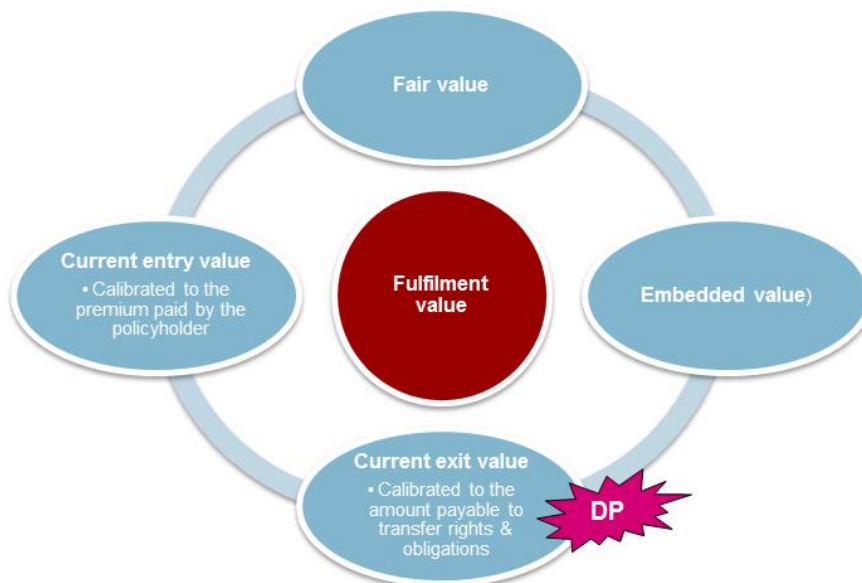
This exposure draft proposes several major principles of great importance to the accounting treatment of insurance contracts, sometimes very different from those in the 2007 Discussion Paper. It provoked many reactions during the comments period. In the absence of any unanimity, some of these principles were discussed again by the IASB and the re-deliberations led to the publication of new exposure draft in June 2013 with an amended provisional timetable:



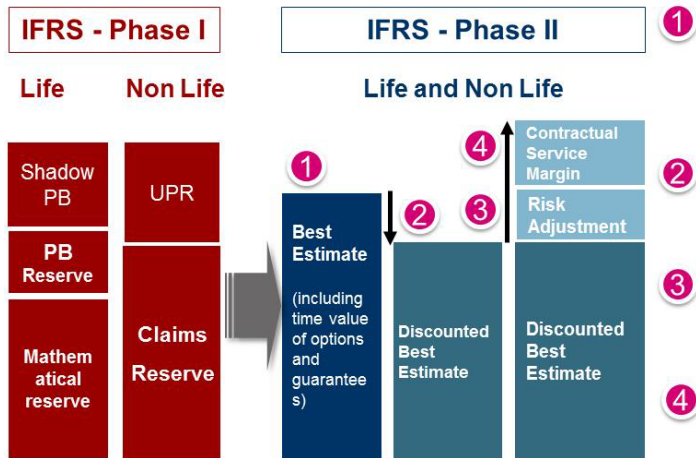
## 2. Key points for measuring liabilities established since the 2010 exposure draft

In order to better understand the subjects still under discussion following the call for comments on the 2013 exposure draft, it is worth reviewing the main outlines of the measurement of liabilities via an approach based on the fulfilment value in three blocks (the “building block approach”).

In contrast to the proposals in the 2007 Discussion Paper (liability measured at the market value which might apply in the event of a transfer between two insurers), the July 2010 exposure draft introduces an approach based on the fulfilment value of liabilities to the portfolio holder. This approach has been maintained in the 2013 ED.



The exposure draft proposes that the fulfilment value of liabilities should be calculated using an approach in three blocks:



**Best Estimate of existing contracts:** An explicit, unbiased and probability-weighted estimate of the future cash outflows less future cash inflows that will arise as the insurer fulfils the insurance contract

**Discounting Best Estimate:** A discount rate to adjust for the time value of money.

**Risk Adjustment:** the margin that a market player would ask to manage the risk.

**Contractual service margin:** Calibrated to the premium paid by the policyholder, such that the insurer does not recognize a gain at inception (although if it is a loss, it is recognized immediately through P&L).

The calculation methods for these three blocks have not changed significantly between the July 2010 and June 2013 exposure drafts. The key points to remember are:

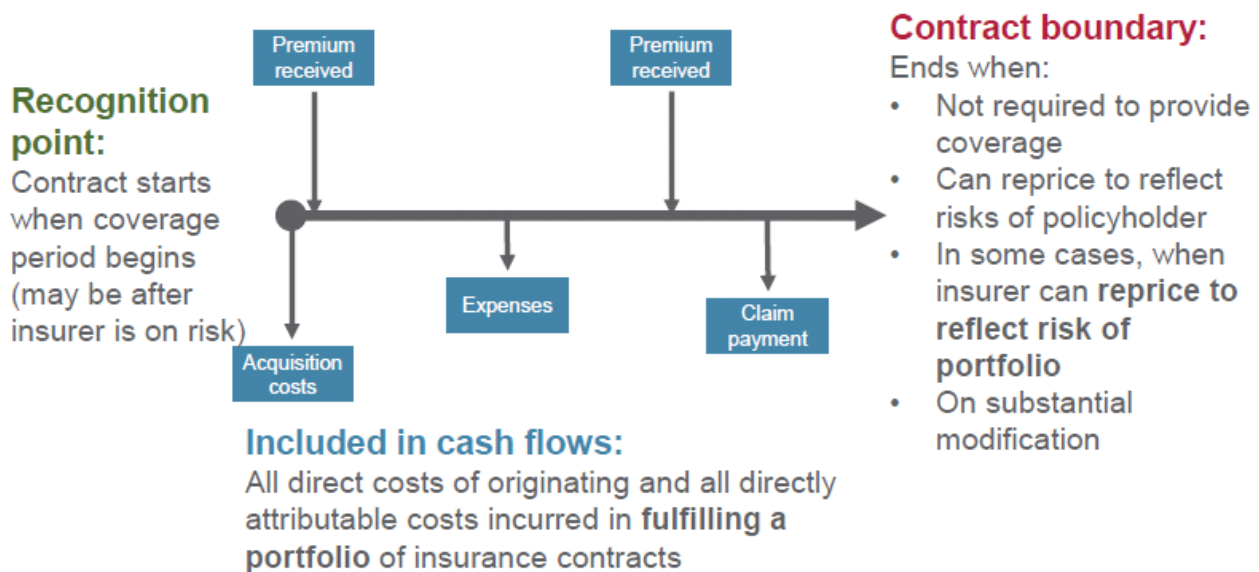
Best estimate

The “best estimate” is the first of the building blocks and includes all cash flows (premiums, losses, expenses, etc.) relating to existing insurance contracts. It is calculated at the portfolio level (contracts subject to similar risks, managed together and priced similarly); cash flows relating to options on existing contracts are taken into account, in line with the probability that the option will be exercised; future cash flows arising from contracts with participation features are also included.

The boundary between an existing contract and a future contract is defined as the moment when the insurer no longer has any substantial obligation to provide coverage (or has the ability to reassess the risk of a policyholder’s contract or a portfolio of contracts).

The “best estimate” is a mathematical calculation which must take account of a sufficient number of scenarios, but which is not required to take account of all possible scenarios (so in practice, there is no obligation to use stochastic modelling in a systematic way).

The cash flows to be included in the model for calculating the best estimate can be summarised as follows:



Source: IASB presentation, Overview of the insurance contract project. March 2013



### The discount rate

The 2010 exposure draft proposed that the discount rates applied to liability cash flows should be based on risk-free rates and should be adjusted to take account of the characteristics of the liability, including its liquidity. The rate must be adjusted at each year-end.

The June 2013 exposure draft no longer specifically recommends a 'bottom-up' approach, and gives no application guidance. Nevertheless, it clarifies that:

- rates must be consistent with observable market prices for instruments which are similar in terms of the timing and liquidity of cash flows;
- any elements which are not relevant to the insurance liability must be excluded;
- the discount rate only needs to reflect the risks and uncertainties which are not taken into account in other blocks.

### Risk adjustment

Risk adjustment is defined as the compensation required by the insurer for bearing the uncertainties related to the liability in a portfolio of contracts. This adjustment must be recalculated at each year-end and maintained throughout the settlement period

The exposure draft proposed that changes in this adjustment should be presented in profit or loss.

### Contractual service margin (formerly known as the residual margin)

The 2013 exposure draft stipulates that a contractual service margin should be accounted for to measure the insurance liability of the contract in order not to recognise a gain at initial recognition.

At inception, the contractual service margin corresponds to the margin expected, and would be equal to the difference between the premium and the sum of the 'best estimate' and the risk adjustment. If the contract is onerous at inception, the corresponding loss must be recognized.

Amortisation of the contractual service margin is based on the services that were provided in the period. In contrast to the proposals of the July 2010 exposure draft, however, it would not be fixed at inception and would be used to absorb changes in estimated cash flow relating to future insurance coverage, though it may not become negative.

### Short-term contracts

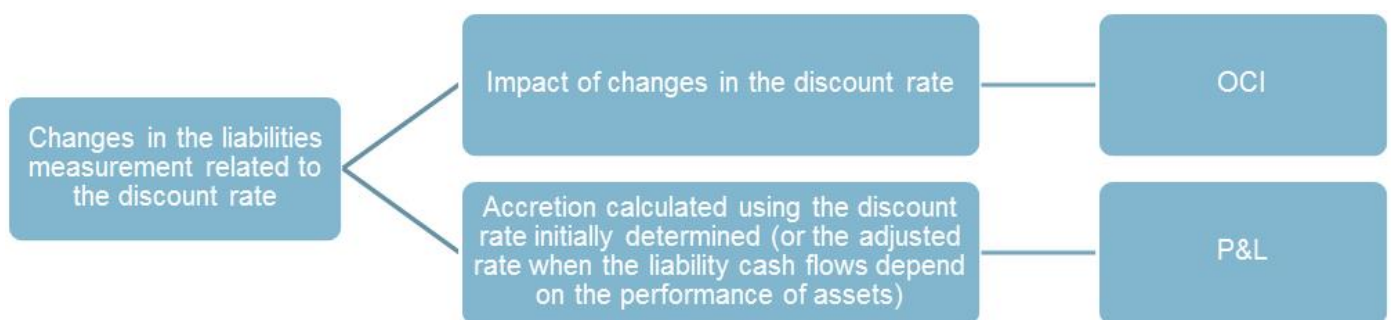
The June 2013 exposure draft maintained a simplified approach for contracts maturing in no more than one year and containing no embedded derivatives (essentially, non-life contracts). For the period prior to the occurrence of a loss, the premium would be allocated over the duration of coverage and the traditional building block method would be used subsequently to the loss. An expense is only directly recognised for losses on contracts expected to be onerous.

## 3. Main changes introduced by the June 2013 ED

### Presentation in OCI of the impact of changes in the discount rate used to measure liabilities

In conjunction with the decision to re-open IFRS 9, the June 2013 exposure draft made it mandatory to recognise in OCI the changes in liability due to changes between the current and the originally defined discount rates.

The impact can be summarised as follows:



This represents a major advance in the project insofar as it reduces the volatility of P&L due to rate changes. Nonetheless, it presents some disadvantages, for example its mandatory nature, without taking into consideration the classification of financial assets backing insurance liabilities.

### Introduction of a 'mirroring approach' for contracts with a participation feature

In response to requests from the industry, the board's redeliberations have taken account of the asset/liability mismatch on participating contracts.

The exposure draft therefore presents a new 'mirroring approach', with the following main characteristics:

- Distinction between cash flows that vary directly with underlying items and the non-participating component;
- For cash flows that vary directly with underlying items:
  - The discount rate must reflect the fact that cash flows are dependent on specific underlying assets;
  - Changes in estimates are recognised consistently with changes in the underlying assets;
  - Interest expense is recognised in profit or loss using the asset's rate of return.
- For the non-participating component, it is necessary to distinguish the cash flows that are not dependent on assets from those which are indirectly dependent on assets:
  - As in the general building block approach, the impact of changes in the discount rate on cash flows which are not dependent on assets is recognised in OCI
  - But the impact of 'asymmetrical' risks (e.g. options and guarantees) which are indirectly dependent on assets are recognised through profit and loss.

The introduction of this exception in the single model for the measurement of liabilities is surprising in several respects:

- a new concept is introduced at the final stage in discussions;
- the proposal appears very complex and has had a cool reception from the industry. We will return to this issue below.

### Adjustment of the contractual service margin

One of the striking changes in the 2013 ED in comparison to the board's 2010 proposals is the option to use the contractual service margin to absorb changes in estimated cash flow relating to future insurance coverage, though it may not become negative.

The contractual service margin would be recalculated at each year-end for each portfolio such that it represented the current estimate of the future portfolio profits at each reporting date.

The changes to the cash flow estimate due to a loss that had already taken place would be recorded in profit or loss.

While this change represents a major advance for most players, there is nevertheless scope for improvement, which we will discuss in the next part.

### The simplified approach to short-term contracts is no longer mandatory

As we have mentioned, this approach has been retained in the 2013 exposure draft. However, it is no longer mandatory but can be used as an option.

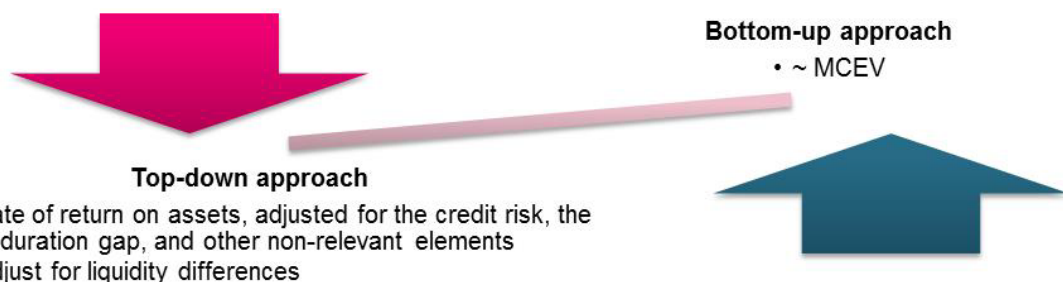
### Determining risk adjustment

Contrary to the proposals in the 2010 exposure draft, there is no longer any precise guidance on the method to be used to determine the margin for risk, but disclosures are required on the confidence level corresponding to an approach by quantiles.

The Board also allows insurers to benefit from the impact of diversification between portfolios to calculate the risk margin. This seems relevant to us, in terms of the management of these portfolios and the demands of Solvency 2.

### 'Top-down' approach authorised for determining discount rates

The 2013 exposure draft states that discount rates can be calculated by two possible methodologies:



Further, in the case where insurance contract cash flows depend on the performance of the underlying assets, liability measurement must take this performance into account. Nonetheless the exposure draft gives no specific guidance on this subject.

### Improved transitional measures

The board now proposes that application should be retrospective, if possible (in accordance with IAS 8). If this is impossible, the ED proposes simplifications for the determination - on the basis of the best information available - of the various components at the beginning of the earliest period presented: contractual service margin, risk margin and best estimate.

The difference between the best estimate at the original discount rate and the best estimate at the current discount rate (at the beginning of the earliest period presented) is recognised in shareholders' equity.

#### 4. Main reactions to the exposure draft to date

The publication of the exposure draft provoked a lively response from the industry and the main stakeholders concerned in the accounting treatment of insurance contracts (auditors, regulators, market authorities etc.).

The majority of commentators welcomed the board's advances in a number of areas.

The most striking improvements include:

- Adjustment of the contractual service margin for changes in the estimates of cash flows for future coverage periods. Changes in the best estimate can be used to absorb shocks, though the contractual service margin may not become negative.
- The use of OCI for the impact of changed rates on liability measurement, thus limiting volatility in the profit and loss account;
- The abandonment of the mandatory requirement to apply the simplified method to measuring the liability for the remain period of coverage when this remaining duration does not exceed a year, and when this estimate would reasonably approximate to the result which would be obtained using the building block approach;
- The removal of the requirements as to the methods to use for determining the risk margin and the option to take account of diversification effects in the entity;
- Changes to the transitional arrangements, with retrospective application and simplifications for too-complex cases.

Nonetheless, commentators believe that there is still scope to improve the draft standard, and these aspects must be addressed by the board if the model is to reflect the business model of insurers.

The most criticised aspects include:

- The introduction of the 'mirroring approach'. Although the principle of taking account of assets when measuring liabilities in a contract with a participation feature is generally recognised in order to avoid accounting mismatches, stakeholders in the insurance industry all expressed their disagreement with this approach proposed by the board for participating contracts. The main criticisms relate to:
  - the scope of the contracts covered by the 'mirroring approach'. Only contracts in which the link between assets and the liabilities is explicit will be concerned. This proposed scope is regarded as too restrictive and does not allow a comparison of contracts with similar economic characteristics (such as those incorporating a legal rather than a contractual link with the insurance company's general asset portfolio);

- The complexity of the implementation of this approach. Insurers believe that the proposed distinction between cash flows is too complex, and does not correspond to the economic substance of participating contracts and the way they are managed in practice;
- The proposed treatment of options and guarantees. The market is unanimously opposed to the treatment of options and guarantees under this approach, particularly in relation to the time value of options and guarantees. Options and guarantees are closely related to insurance contracts. Recognising their changes in value in profit or loss would not be consistent with the treatment of other cash flows, insofar as they do not reflect services provided by the insurer in the period in question. Such a treatment would contribute to altering the evaluation of performance by introducing the short-term volatility of financial markets into the analysis of the performance of a long-term business.

The industry has not only criticised the board's approach to contracts with a participating feature; it has also proposed some alternatives. These approaches are based on a return to a single model for measuring insurance liabilities and aim to take account of the interactions between assets and liabilities while removing from profit or loss the short-term volatility of financial markets, which does not reflect the service provided by insurers.

- The scope of aspects that could influence the contractual service margin. Overall, commentators have welcomed the introduction of a mechanism to absorb shocks when measuring liabilities.
- Nonetheless they all consider that the proposed scope is too restrictive, and should include changes in the estimate of the risk margin for future coverage periods. Conceptually, these changed estimates affect future cash flows in exactly the same way as changes in the best estimate.
- The mandatory recognition of the impact of interest rate changes in OCI, whereas IFRS 9 does not currently permit the classification of many of the financial assets held by insurers in the OCI category.
- Presentation of the income statement. The majority of commentators do not believe that the new presentation of income and expense proposed in the 2013 exposure draft reflects the life insurance business better than the proposal in the 2010 ED based on analysis of the margin. This last had been accepted by the industry insofar as it was in line with the profitability indicators of currently used in this line of business and consistent with the building block approach used to measure liabilities. Further, this presentation entails disaggregating the premium in order to isolate the investment component, whereas it is tightly bound to the insurance component. This separation would mean making arbitrary choices and could introduce an additional level of complexity, which would not improve comparability between insurers.

The draft standard includes also some points which need clarification, including:

- The treatment of reinsurance ceded, which causes an asymmetry in the rate of recognition of gains / losses between the direct insurance portfolio and the corresponding reinsurance contract.

The date of first application: most commentators recommend that insurers should be allowed to delay application of IFRS 9 until the effective date of IFRS 4 Phase 2, to avoid a dual transition process.

## 5. Conclusion

In conclusion, the board has made significant progress in the insurance project. Nevertheless, there remain some key areas which need to be adapted if the proposed model is to better reflect the business model of insurers and meet the needs of users seeking to understand financial statements.

The proposals contained in the 2013 exposure draft introduce a new level of complexity into the accounting treatment of insurance contracts. This complexity is inherent in the objective of drafting a principles-based insurance standard which is applicable to a wide diversity of contracts. Nonetheless, for users, the key issue is that insurers' financial statements under the future standard should be understandable. It is therefore essential for the board to promote the intelligibility of financial statements by limiting complexity.

We believe that a test phase should be conducted before the standard is finalised, and before its first application. This would constitute a key step in the finalisation of the standard in order to ensure that the objectives of clarity and transparency in financial statements and comparability of companies are achieved. This phase is also indispensable to ensure the robustness of the model and to identify the main disclosures which will be required.

We will keep you informed of the board's new deliberations following its analysis of the comments letters received in the wake of this exposure draft.

# Events year FAQ

## Frequently asked questions

### IFRS

- Treatment of decommissioning obligations during the entry into service of a wind farm;
- Treatment of a contract for factoring trade receivables;
- Accounting treatment of the disposal of a CICE receivable.

## Upcoming meetings of the IASB, IFRS Interpretations Committee and EFRAG

IASB	Committee	EFRAG
14 - 22 November 2013	29 - 30 January 2014	16 - 18 December 2013
9 - 13 December 2013	25 - 26 March 2014	27 - 29 January 2014
20 - 24 January 2014	13 - 14 May 2014	26 - 28 February 2014

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