

The implications of IFRS for New Basis Business

Part 26/Chapter 4

Document last reviewed on 22 May 2017

Executive Summary

Given that the new basis Case I computation is accounts-based it follows that shareholder gains on investments chargeable under Case I should also follow the accounts. The Schedule 17A transitional rules on changeover to IFRS will apply.

1.1 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 1 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, ensuring the elimination of any double taxation or non-taxation.

1.2 Valuation Issues Case 1

There may be instances in which "fair value" under IFRS does not equal market value under local 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, including the 'bed and breakfast' provisions of Schedule 17A.4(5), would have application in that regard only.