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Perspective of the latest IASB Board Decisions and Implications

Joachim Kölschbach

Main Issues of Concern

- Volatility
- Acquisition costs
- Subjectivity
- Use for internal financial management and solvency
- Transparency
- Indirect impacts

Volatility I

- **Investments vs. guaranteed benefits**

- Liabilities discounted at risk free rate
 - Fair value option
 - Performance linkage / discretionary participation feature
- } if matched



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Volatility II

- **Technical provisions**

- no equalisation or similar provisions!
- IAS 39 AG 76A: No gain or loss shall be recognised, unless evidenced by market factors?
- Isolated consideration of individual assumptions?
- Impact dependent on treatment of policyholder behaviour



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Acquisition costs

- **Contract relationship as an asset (right to guaranteed insurability permits continued coverage without reconfirmation of the policyholder's risk profile)**
- **Measurement to be discussed: Acquisition cost as price for acquiring and closing of contract vs. transaction costs?**

Subjectivity

- **Gain on initial recognition prohibition or implicit in accounting method?**
- **Unlocking (see volatility)**

Use for internal financial management and solvency

- Asset at market value ↔ fair value option
- Mark to model for technical provisions ↔ current exit value

Transparency

Disclosure requirement IFRS 4

- Principle based vs. rules based
- Loss triangles
- European embedded value

Indirect impacts

Coordination with

- Profit distribution to shareholder
- Taxation
- Policyholder participation