

Accounting Developments  
Insurance Breakfast Briefing  
17 February 2010

Carol Lynch



# Key Questions of Audit Committees

- What's happening with the new insurance standard?
- When will we be forced to move away from Irish GAAP?
- What's new in relation to fair value?

# IFRS 4 Phase II Update

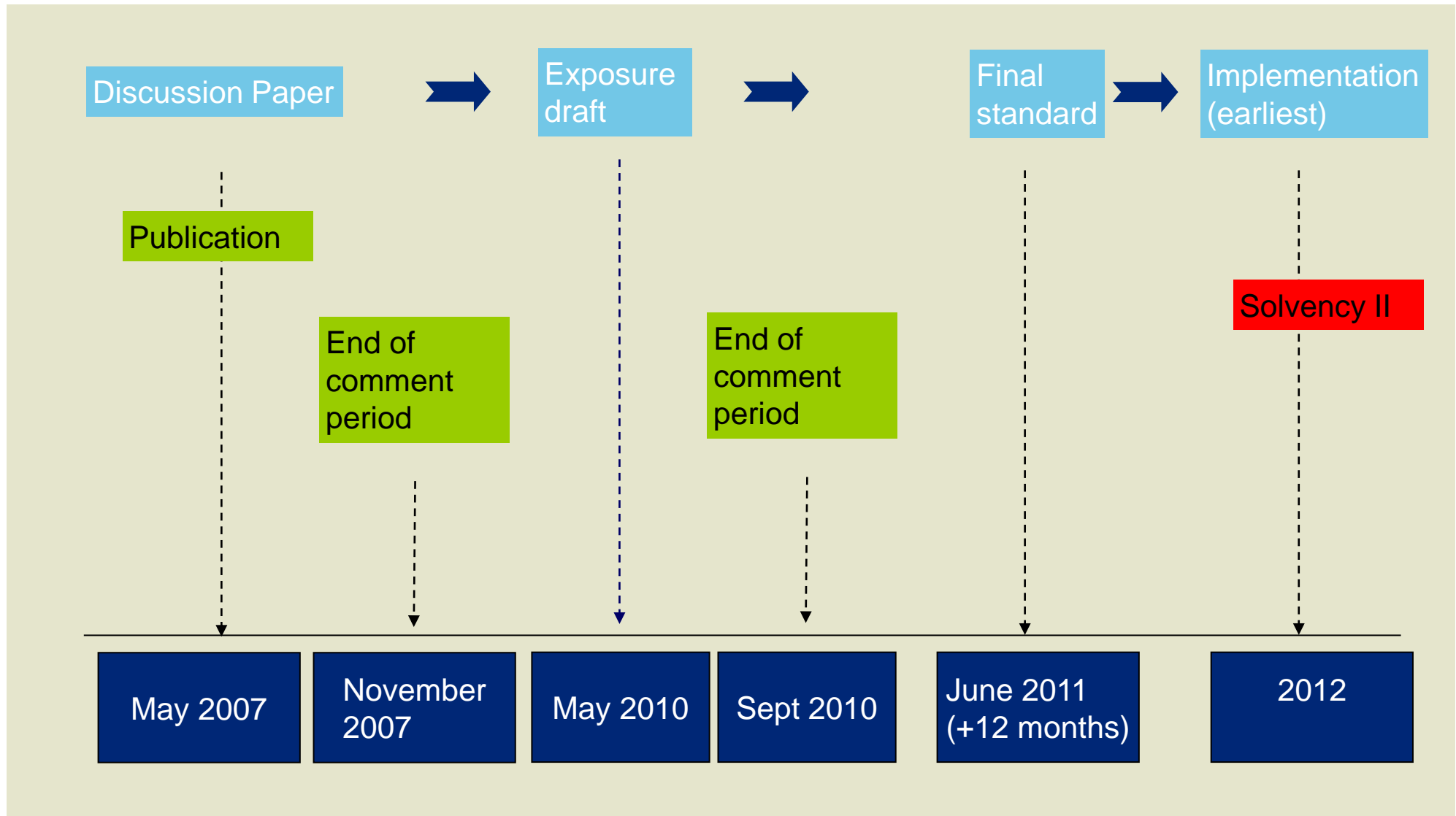
- One model with 3 building blocks
- Measurement objective and risk adjustment - refinements
  - Net cash flows would be the basis for the insurance accounting - single balance
  - Current fulfilment value should be linked to the notion of value rather than cost for bearing risk
  - Risk adjustment defined in relation to uncertainty and re-measured at each reporting period
- Presentation of performance statement
  - Base revenue on an earned basis rather than a written basis
  - Not report as revenue the part of the premium that is expected to be returned to the policyholder
- Policyholder behaviour
  - Deposit floor

# IFRS 4 Phase II Update (Continued)

- Residual Margin
  - Changes to three building blocks always recognised in P&L immediately with RM released to P&L independently
- Unbundling
  - Continued divergent views
- Reinsurance contracts
- Timetable
  - Delay the publication date of the ED from April to May 2010 with the comment period being September the same year.
  - The Boards are committed to delivering an insurance accounting standard no later than June 2011

# IFRS 4 Phase II Update (Continued)

## Updated Timeline



# Future of Irish GAAP

- Three tier approach to developing Irish GAAP converged with IFRS with a proposed implementation date of 1 January 2012
- Tier 1
  - Publicly accountable entities would apply full IFRS
- Tier 2
  - All other entities other than those that apply FRSSE could apply IFRS for SMEs
- Tier 3
  - Small entities could choose to continue to apply the FRSSE

## Future of Irish GAAP (Continued)

- ASB Consultation Paper – “Future of UK GAAP” – was published August 2009. The consultation deadline was 1 February 2010
- Initial points coming from this process
  - General agreement with the Board’s definition of “Public Accountability”
  - Scope
  - Tax compliance
  - Timetable
- Implications
  - Much more significant transition process
  - Comparatives required for 2011
  - Sufficient staff resources and expertise
- The ASB plans, later in the year, to host an event or events to share with UK and Irish constituents its initial analysis of the responses and how the process might be taken forward

# IFRS 9

Project to replace IAS 39

<b>Project Phase</b>	<b>Exposure Draft</b>	<b>Finalisation</b>
<b>1. Classification and Measurement</b>	<b>July 2009</b>	<b>November 2009</b>
<b>2. Impairment Methodology</b>	<b>5 November 2009 – comment period to 30 June 2010</b>	<b>2010</b>
<b>3. Hedge Accounting</b>	<b>First quarter 2010</b>	<b>2010</b>

## IFRS 9 (Continued)

- Phase I addresses financial assets only
- Has not been endorsed by the EU
- Not required to adopt until 2013
- Board recognises particular problems facing insurers if they adopt IFRS 9 before they apply requirements of IFRS 4 Phase II

# Keep Up-to-date

IAS Plus Home Page: News about International Financial Reporting - Windows Internet Explorer

http://www.iasplus.com/index.htm

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Deloitte. IAS PLUS

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Tuesday, 16 Feb 2010

**The #1 Website for Global Accounting News**  
Beyond the Standard.

16 February 2010: Notes from February 2010 IASB meeting day 1

The IASB is holding its February 2010 monthly Board meeting at its offices in London on Monday to Friday, 15-19 February 2010. Presented below are the preliminary and unofficial notes taken by Deloitte observers at the third day of the meeting.

**Notes from the IASB Board Meeting**  
15 February 2010

The IASB met for its regular monthly meeting in London. All Board members were present.

- [Derecognition of Financial Instruments](#)

**Transfer definition**

The Board discussed the set of concerns raised by respondents to the Derecognition ED with respect to the definition of transfer. The Board agreed with the staff analysis that in the alternative approach, the link between the financial asset and the transaction transferring the economic benefits is of crucial importance. Therefore, the Board decided not to provide a transfer definition in the final Standard, but to deal with the individual issues raised by providing additional application guidance on application of the derecognition principle underlying the alternative approach.

Some Board members expressed their concerns how consistent would be this decision with the conclusions reached in other projects, especially with respect to the importance of legal form of the transaction in some cases (e.g. leases).

The Board continued to discuss the question whether 'economic' benefits were to be assessed in derecognition principle include voting or subscription rights. Most Board members agreed that inclusion of these rights in the definition of economic benefits is consistent with the general principle of the model, to the extent they were not recognised separately. Nonetheless, they expressed concerns relating to

**IASB Structure**  
[What Is the IASB?](#)  
[Structure Diagram](#)  
[Monitoring Board](#)  
[IASC Foundation](#)  
[2008-09 Constitution Review](#)  
[IASB Members](#)  
[IASB Photos](#)  
[IASB Due Process](#)  
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**IASB Projects and Meetings**  
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[Meeting Notes](#)  
[Effective Dates](#)  
[Next Meeting Agenda](#)  
[Future Meeting Dates](#)  
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[Model IFRS Statements and Disclosure/Compliance Checklists](#)  
[Deloitte Comment Letters](#)  
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[IAASB Auditing Standards](#)

## Third Anti Money Laundering Directive

Sinead Ovenden



# Agenda

- Update on legislation
- Guidance Notes update
- 6 steps to compliance



# Legislation update...

## Progress to date:

2005 - Directive

2009 - Bill published - July 2009

2010 - Committee stage - January 2010

## Planned timeframe for completion:

- Enactment expect March 2010

- Commencement expected June 2010



## Guidance Notes Update (both Core and Sectoral)

- Version 6 December 2009 reflect amendments to the bill.
- Next version to be submitted to the FR for limited consultation (March 2010)
- Present to Department of Finance and Justice for approval
- Signed by Minister for Justice

....balancing act to progress guidance notes while updates carried out on legislation.



# Six steps to compliance....

## 1. Carry out risk assessment

- Geographical
- Product/service risk
- Customer
- Delivery channel



## 2. Consider application of risk based approach

CDD requirement	Directive	Bill Risk	Guidance Notes
Verify customer identity	✓	x	✓
Identify beneficial owner	✓	✓	✓
Obtain purpose and information on business	✓	✓	✓
Ongoing monitoring	✓	✓	✓

**NB. Risk based approach is not mandatory.**



### 3. Identify exemptions

#### **Simplified due diligence applicable to the following:**

- Life assurance policy with annual premium of €1000 or less
- Life assurance policy with single premium of €2,500 or less
- An insurance policy in respect of a pension scheme , being a policy that does not have a surrender clause and may not be used as collateral
- A pension, superannuation or similar scheme for employees

#### **Simplified due diligence means:**

1. Do not have to identify customer
2. Do not have to identify beneficial owner
3. Do not have to obtain information on the purpose and nature of business

*Unless Designated Person knows or suspects ML or TF .....*

## 4. Identify enhanced requirements

### Who is a PEP:

- Politically Exposed Persons - high political profile or public office which makes them vulnerable to corruption
- Applies to politically exposed persons resident outside Ireland
- Expands to immediate family

### On a risk based approach carry out the following prior to establishment of business or carrying out a single transaction:

- Have procedures to identify PEPs
- Obtain Senior Management sign off
- Establish source of wealth and source of funds involved in transaction
- Conduct enhanced monitoring



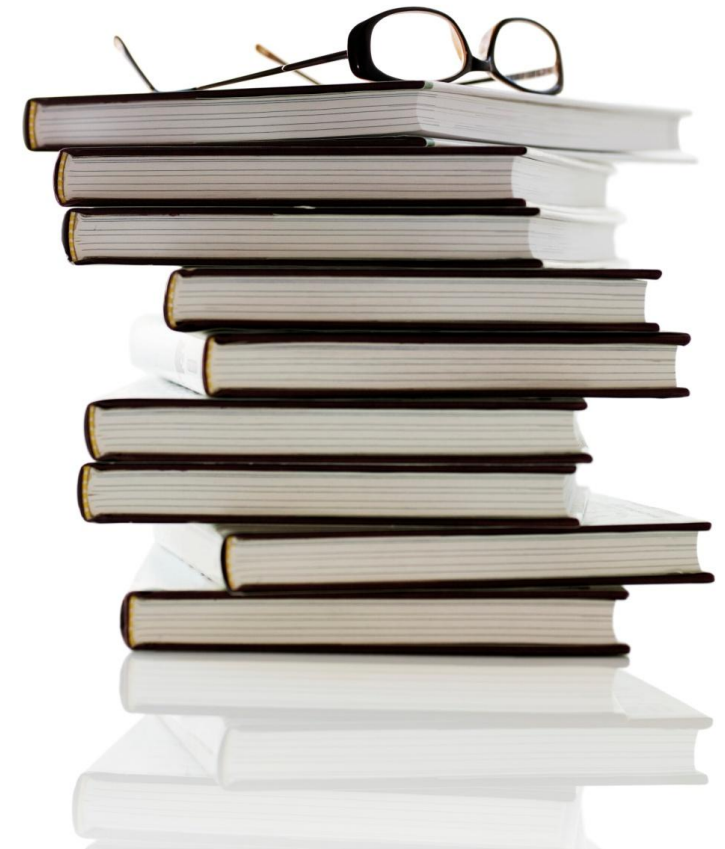
## 5. Make arrangements for reliance on third parties

- Designated Person retains responsibility
- Designated Person must undertake monitoring
- Third party must:
  - Have professional registration
  - Subject to directive
  - Supervised for compliance



## 6. Update all documentation

- Monitoring compliance – guidance notes suggest internal audit review and assess compliance
- AML Policy
- AML Procedures
- Transaction Monitoring
- Training
- Reporting procedures



## Other hot regulatory news

- Review of enforcement strategy
- Ongoing focus on CPC specifically in relation to elderly customers
- Significant recruitment about to commence



## Audit Committees *A developing agenda...*

**Glenn Gillard**



# Agenda

- Observations on Financial Regulator activities
- Financial Regulator Corporate Governance Guidelines
- Emerging topics
  - Walker Review
  - SI 450 and impact on regulated entities
  - Going concern and liquidity
  - Solvency II
  - Tax and Finance Bill

## Observations on FR activity

- Evidence of more hands-on involvement from FR
  - Site Visits
  - Private meetings with the external auditors and NEDs
- Focus on corporate governance and compliance
  - Application of Reinsurance Guidelines
  - Reference to Authorisation Requirements



## Observations on FR activity

- Hot Issues include:
  - Governance Structure

### Considerations:

- Adequacy of resources
- Appointment of independent NEDs
- Establishment of relevant committee structure especially audit committee
- Internal audit arrangements

## Observations on FR activity

- Hot Issues include:

- Material transactions

*Prior to entering into any transaction of a material nature with a related company or companies, including, in particular, the provision of loans to and acceptance of loans from a related company or companies, an insurance undertaking shall submit to the [Bank] a draft copy of any contract or agreement which is to be entered into by the insurance undertaking in relation to the transaction*

European Communities (Life Assurance) Framework Regulations 1994

Considerations:

- Dividends
- Adequacy timing of notification
- Solvency and financial impact (before and after analysis)

## Observations on FR activity

- Hot Issues include:
  - Risk Monitoring

### Considerations:

- Risk Matrix
- Risk Monitoring and Reporting

# FR Corporate Governance Guidance

FR 'Corporate Governance for Reinsurance Undertakings'

*'Levels of oversight in operation that are consistent and proportionate to the size and complexity of the undertaking.'*

*'Demonstrable Use test'*

- At a minimum companies must consider:
  - Board of directors & its sub-committees
  - Independent non-executive directors
  - Senior management
  - Internal controls (including risk management)
  - Audit (internal & external)
  - Compliance



# FR Corporate Governance Guidelines

## Focus on Risk Management

- Comprehensive risk management system
- Operational and business risk
- Business Risk
  - Underwriting
  - Concentration
  - Provisioning
  - Actuarial Certification
  - Retrocession Strategy
  - Contracts
  - Investments

# FR Corporate Governance Guidelines

## Focus on the Audit Committee and iNEDs

- Two iNEDs by 30 June 2010
- Existence of an audit committee...*is an essential element of an effective control environment*
- Some Considerations points:
  - Training
  - Financial Expert (Insurance knowledge?)
  - Membership
  - Private sessions
  - Performance evaluation
  - Reliance on actuarial information
  - Related Party Transactions
  - Whistleblowing arrangements

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Catch the 2009 current  
The audit committee knowledge

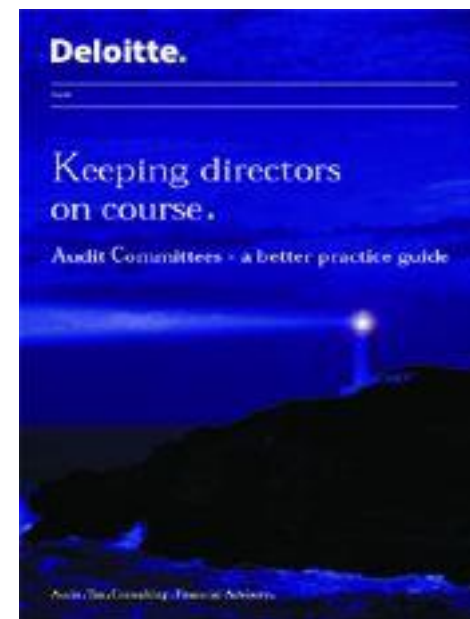


The Deloitte Academy

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Keeping directors  
on course.

Audit Committees - a better practice guide



## Emerging Topic: Walker Review

- UK Review but FSA using to benchmark insurers
- Cross benefits between Walker and Solvency II
- Main theme: *cultural change from 'box ticking' to governance culture*
- Developing a risk structure:
  - Over/underlap of committees and roles
  - Role of the Chief Risk Officer (CRO)
  - Definition of risk appetite and linkage to business
  - Management Information
  - Remuneration
  - Communication

## Emerging Topic: Statutory Instrument 450

- Implementation of EU Directive
- Focus on listed entities
- Requirement for an annual corporate governance statement
- Themes for consideration:
  - Do you a defined corporate governance code?
  - How do you communicate corporate governance to external parties?

# Emerging Topic: Going Concern and Liquidity

- Guidance provided by FRC and subsequent Irish guidance from the ICAI
- Principles:
  - Assessment of Going concern
  - The review period
  - Disclosures
- Applying to an insurance entity
  - Current solvency assessment not enough
  - Future solvency and financial condition
  - Access to capital and to reinsurance capacity
  - Impact of group strategy
  - Impact of regulatory environment



# Emerging Topic: Solvency II

- Insurance Briefing Series: March 23rd
- Focus on:
  - ORSA
  - Comments on Deloitte Impact Assessment
- Deloitte Ireland Solvency II [website](#)

## Latest Solvency II news - January 2010

28 January QIS5 task force created [More](#)

28 January CEIOPS launches level three guidance [More](#)

28 January CEIOPS sets up Task Force to meet QIS 5 deadlines and deliverables [More](#)

22 January Solvency II forces AXA to shelve annuity product [More](#)

21 January UBS creates insurance and pensions industry group [More](#)

19 January Private Equity attacks insurance regulation [More](#)

18 January Irish attractions lure firms from rival domiciles [More](#)

18 January Standard Life boosts risk management function [More](#)

15 January Solvency II will unfairly penalise run-off companies, warns ARCI [More](#)

11 January Modernization will impact insurers' Solvency II strategy, says IUA [More](#)

# Emerging Topic: Tax and Finance Bill

## Year End Review

- Tax Provisioning for:-
  - Corporate Tax
  - VAT
  - Payroll Taxes
  - IPT
  - Other Withholding Taxes
- Revenue audits

## Finance Bill 2010

Significant amount of changes introduced in Finance Bill 2010 that require consideration including:-

- Transfer pricing
- Amendments to the insurance Stamp Duty levies
- Carry forward of excess foreign branch tax credits

## Finance Bill 2010 – Date for the Diary

- Financial Services Breakfast Briefing: Tues, 2<sup>nd</sup> March 2010 - Four Seasons Hotel, Ballsbridge
- Insurance Breakfast Series: Tax Update (incl Finance Bill 2010): Thurs, 15<sup>th</sup> April 2010

## A full agenda...

- Observations on Financial Regulator activities
- Financial Regulator Corporate Governance Guidelines
- Emerging topics
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  - SI 450 and impact on regulated entities
  - Going concern and liquidity
  - Solvency II
  - Tax and Finance Bill



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