A European body of comprehensive and uniform regulations on solvency capital and investors' reporting applicable to the largest insurance market in the world: this is the historical target that the finalisation of the Solvency II reform in the European Union (EU) and the endorsement of a new International Financial Reporting Standard (IFRS) on insurance contracts (IFRS 4 Phase II) could produce within a few years. Both regulations have been through a multi-year laborious process fraught with unexpected protracted delays and changes of direction that, at some point, raised doubts about whether their ultimate objective would ever be achieved. However, the spring of 2014 seemed to mark a positive turning point in these parallel reforms, and confidence that the standard setting and legislative processes will be completed reached its highest level thus far.

BACKGROUND, OBJECTIVES AND METHODOLOGY

The Solvency II directive has been approved by the European Parliament and Council, and the implementing measures are being produced with the aim to have all relevant provisions approved and published by 2015, in time for the Solvency II regime to be mandatorily effective on January 1, 2016. The International Accounting Standards Board (IASB) is the independent accounting standard setter that produces all IFRSs. In 2014, it accelerated its re-deliberation activity on IFRS 4 Phase II, and it is plausible that they will also complete their standard-setting work in 2015 when the new IFRS is due to be published.

Following the publication of the IFRS 4 Phase II text, the EU will approach the endorsement of the new IFRS for inclusion in the EU

Extracts from "The Solvency II Handbook; Practical Approaches to Implementation", chapter 4, page 93. Written by Francesco Nagari and Derek Haynes and published by Risk Books

financial reporting regulations. As with Solvency II, the endorsement requires the agreement of both the European Parliament and Council. It is not certain at this point when IFRS 4 Phase II will be mandatorily effective, but it will not be any earlier than January 1, 2018, two years after Solvency II.

Although Solvency II and IFRS 4 Phase II have different timelines and objectives, life and non-life insurers will have to address many similar questions and issues when dealing with their implementation, particularly around the valuation of insurance liabilities, the focus of this chapter.

Given that the effective dates of the two reforms may be separated by a couple of years, an integrated or closely aligned approach to the implementation of the two projects is likely to minimise implementation costs and maximise benefits. However, in order to achieve this, insurers need to understand both the similarities and differences of the two regimes.