CADWALADER

Accounting Changes Could Signal Larger Allocations to Private Assets from Insurers

October 25, 2019 | Issue No. 51

By **Chris van Heerden**
Director | Fund Finance

An IASB accounting standard set to take effect in 2021 may lead non-U.S. insurance companies to increase allocations to private funds to diversify existing holdings and to enhance returns. IFRS 17, which was initially published in 2017, requires insurance liabilities to be measured on a risk-adjusted present value basis when it takes effect. The standard represents “the most significant change to insurance accounting requirements in over 20 years,” according to Ernst & Young. Under the new standard, low prevailing interest rates may lead to higher reported long-term obligations, thereby leading some insurers to add long duration, higher return assets.

How does this compare to U.S. standards? FASB rolled out Accounting Standard Update 2018-12 last year, which will similarly require liabilities to be re-forecasted using the yield on an “upper-medium grade” (*i.e.*, single-A rated) fixed income instrument as the discount rate. The discount rate assumption is to be updated at each reporting date. Not surprisingly, the U.S. change has also earned high marks from accounting firms, with PwC labeling it the “the biggest change in U.S. GAAP reporting for life insurers in the last 40 years.” The standard takes effect in 2021 for public entities.

Private Debt International **recently highlighted** a discussion among Asian insurance companies regarding their planned response to the revised IASB standard. For fund lenders, the changes may, in time, lead to greater insurance company representation in investor pools.