

Guidelines on Presentation and Disclosure - The Segregation of the Life and General Insurance Business Under Section 53 of the Regulation of Insurance Industry (Amendment) Act No.3 of 2011

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1. Introduction

In terms of Section 53 of the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011, all composite insurance companies are required to split their Life and Non - Life Insurance business into two separate legal entities. In consultation with the insurance industry, IBSL has brought forward the deadline for compliance to 1st of January 2015 and has set out a timetable with key milestones leading to the completion of the process by that date.

This guideline specially concentrates on the separate financial statements rather than consolidated financial statements. From a group point of view, there is no discontinuation of operations since the group would continue both life and general business.

Segregation of insurance business would not meet the definition of assets held for sale because the carrying amount of the transferred assets will not be recovered principally through a sales transaction, rather than through continuing use. Although the entity receives value for the assets in the form of an investment in a subsidiary, that investment will only be realized through continuing use, if a sale is not planned by the Company.

In substance, this segregation is only a change in the mode of operation or restructuring the insurance business. Under such restructuring, it should be noted that the entity has not lost control of the assets, and therefore the assets cannot be considered to have been disposed of. Therefore, segregation of insurance business is considered as out of scope for the application of SLFRS 5 "*Non-current Assets Held for Sale and Discontinued Operations*".

The objective of this Application Guideline is to ensure consistency in disclosure and presentation of the segregation of Insurance Companies within a common framework for financial reporting purposes.

2. Scope

This guideline shall be mandatory when the insurance business satisfies all the following conditions;

2.1. Segregation is to comply with the Insurance Industry (Amendment) Act No. 3 of 2011, Section 53.

2.1. Before and immediately after the segregation of insurance business under the above mentioned regulation, ownership structure has not changed.

2.2. Applicable for the following described business structures;

- Create two new subsidiaries under the existing parent company by exchanging of shares while having the control of the subsidiaries. One subsidiary will holds the assets and liabilities of the Life Insurance business and other will holds the assets and liabilities related to the General Insurance business

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- Parent company creates one subsidiary by exchanging shares while having the control of the subsidiary. Parent company and new subsidiary will hold the assets and liabilities related to the Life and General Insurance businesses separately.

3. Disclosure Requirement

An entity shall disclose the following information in its separate financial statements as a note to the Financial Statements, to reflect the impact of restructuring in order to reflect a fair presentation.

- (a) a single amount comprising the total of the post-tax profit or loss of segregated operation
- (b) an analysis of the single amount in (a) into:
 - (i) the revenue, expenses and pre-tax profit or loss of segregated operation; and
 - (ii) the related income tax expense as required by paragraph 81(h) of LKAS 12;
- (c) the net cash flows attributable to the operating, investing and financing activities of segregated operations.
- (d) the amount of income from continuing operations and from segregated operations attributable to owners of the parent.

3.1. Additional Disclosures

An entity shall also disclose the following additional information as a note to the separate financial statements.

- (a) a description of the segregated insurance business operation
- (b) a description of the facts and circumstances of the segregated insurance business

Further recommend to include a separate Comprehensive Disclosure Note in both separate and group financial statements regarding the background information of the segregation of insurance operations to improve the quality of financial statements to achieve a fair presentation.