# STAFF PAPER

**March 2016**

**IASB Meeting**

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| **Project** | **Amendment to IFRS 4: Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*** |
| Paper topic | Summary of comment letters and outreach |



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## Introduction

1. This Agenda Paper provides a high-level summary of the comments received in comment letters and during outreach meetings on the Exposure Draft ('ED') *Applying IFRS 9* Financial Instruments (IFRS 9) *with IFRS 4* Insurance Contracts (IFRS 4), other than those received from users of financial statements. The feedback from users of financial statements is summarised in the accompanying Agenda Paper 14B for this meeting.

2. The ED was published on 9 December 2015 with a 60-day comment period, which ended on 8 February 2016. The Appendix provides statistical information about the 95[1] comment letters received (as at 29 February 2016) by respondent type and geographical region. We note that feedback has been received from jurisdictions where insurance is widely purchased and also from jurisdictions where insurance is less commonly purchased.

3. The paper is provided for information only; and no decisions are required from the Board.

4. Paragraph 5 provides an executive summary of the feedback received from all constituent types, except for users, in the form of 93 comment letters received and

[1] A comment letter was received after this Agenda Paper was completed and sent for publication, which takes the total number of comments letters received to 96. In the opinion of the staff, the comments in this letter are consistent with the 95 letters that formed the basis for this Agenda Paper.

approximately 20 meetings[2] conducted after the publication of the ED. In addition:

(a) paragraphs 6-49 discusses, in further detail, the feedback received on the questions in the ED; and

(b) paragraphs 50-53 discusses the feedback received on two of the ED proposals about which the Board did not ask questions.

## Executive summary

5. In summary, the feedback received from all respondent types (except users of financial statements) is as follows:

(a) Most preparers, auditors, accounting and actuarial bodies, national standard-setters and regulators believed that the Board should address the concerns that the proposals in the ED are meant to address.

(b) Most preparers from Europe, North America and Asia viewed the temporary exemption from IFRS 9 ('the temporary exemption' and also referred to as the deferral approach) as the only approach that addresses all of their concerns arising from applying IFRS 9 prior to the forthcoming insurance contracts Standard. Their view is supported by most auditors, accounting and actuarial bodies, and national standard-setters.

(c) A few preparers are unconcerned about applying IFRS 9 in 2018 because all of their financial assets are accounted at fair value through profit or loss (FVPL) (eg from South Africa); or because they are subsidiaries of banks, and therefore, expect to apply IFRS 9 regardless of the proposals in the ED. A few entities that engage in both banking and insurance activities (sometimes termed 'bancassurers') would prefer to apply the overlay approach. A few respondents (eg from South America) would prefer all entities issuing contracts within the

[2] This includes meetings with participation by either Board members and/or staff at meetings organised by constituents.

scope of IFRS 4 to apply IFRS 9 in 2018 in conjunction with all other entities and therefore, do not support the temporary exemption.

(d) Most respondents, from all respondent types, believed that the population of entities that would qualify for the temporary exemption is too narrow because entities that they regard as being insurers would not qualify under the proposals in the ED.

(e) Respondents had mixed views on whether the eligibility assessment for the temporary exemption:

(i) should be conducted at 'the reporting entity level' only. (In other words, respondents who supported this view advocated that either IFRS 9 or IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) would apply to all financial instruments in a group's consolidated financial statements); or

(ii) should also be permitted 'below the reporting entity level' (eg that parts of a group would apply IFRS 9 and other parts of the same group would apply IAS 39 in the group's consolidated financial statements).

For example, most regulators supported an assessment at the reporting entity level. In contrast, most preparers and national standard-setters, auditors, and accounting and actuarial bodies supported an approach that allowed an assessment below the reporting entity level. An approach that allowed an assessment below the reporting entity level would permit insurance subsidiaries in a group with other activities (eg banking activities) to apply IAS 39 in the consolidated financial statements of the group. The non-insurance entities in such a group would apply IFRS 9.[3]

(f) Respondents had mixed views on whether there should be a fixed expiry date for the temporary exemption. Most regulators, and some standard-setters and auditors, supported the proposed fixed expiry date, regardless of the mandatory effective date for the forthcoming insurance contracts Standard. In contrast, many preparers believed that

[3] Some suggest a combination of these approaches as discussed in paragraph 36(c).

insurers should be required to apply IFRS 9 only when they apply the forthcoming insurance contracts Standard.

## Addressing the concerns raised (Question 1)

6. Before the publication of the ED, interested parties raised the following concerns with regard to the different effective dates of IFRS 9 and the new forthcoming insurance contracts Standard:

   (a) Users of financial statements may find it difficult to understand the additional accounting mismatches and temporary volatility that could arise in profit or loss if IFRS 9 is applied before the forthcoming insurance contracts Standard (ED paragraphs BC10—BC16).

   (b) Some entities that issue contracts within the scope of IFRS 4 were concerned about having to apply the classification and measurement requirements in IFRS 9 before the effects of the forthcoming insurance contracts Standard can be fully evaluated (ED paragraph BC17—BC18).

   (c) Two sets of major accounting changes in a short period of time could result in significant cost and effort for both preparers and users of financial statements (ED paragraphs BC19—BC21).

7. Most respondents agreed that the Board should address those concerns. Many emphasised those concerns equally. Some suggested the following incremental costs would arise if IFRS 9 is implemented in 2018 before the forthcoming insurance contracts Standard:

   (a) the effort undertaken to apply the IFRS 9 financial asset classification requirements and to later reassess particular aspects of those requirements when the forthcoming insurance contracts Standard is implemented. In particular, some were concerned about the costs that would arise to implement the expected credit loss (ECL) model when IFRS 9 is first implemented in 2018 if the entity may subsequently choose, on adoption of the forthcoming insurance contracts Standard, to elect the fair value option (FVO) and measure those assets at FVPL.

They think that the cost of implementing the ECL model in 2018 for assets that will be subsequently measured at FVPL would be wasted.

(b) A few were concerned about implementing a software solution to apply the requirements of IFRS 9 that may later prove incompatible with the forthcoming insurance contracts Standard.

(c) A few were concerned about the tax and regulatory impact that may arise if IFRS 9 is applied prior to the forthcoming insurance contracts Standard. In some jurisdictions, financial reporting information may also be used for tax and regulatory purposes.

8. In contrast, a few respondents from South America believed that the Board should primarily address the possible additional accounting mismatches and temporary volatility that might arise. They placed less weight on the other concerns, because they note that:

(a) IFRS 9 improves the accounting for financial instruments compared to IAS 39; and

(b) All entities with financial instruments must eventually apply IFRS 9.

9. How constituents evaluated the benefits and costs of implementing IFRS 9 prior to the forthcoming insurance contracts Standard influenced their views on whether the proposals in the ED addressed the concerns discussed in paragraph 6.

## Question 2—Proposing both an overlay approach and a temporary exemption from applying IFRS 9

10. Most respondents agreed that both the overlay approach and the temporary exemption should be available because they thought that each approach suited different circumstances. Some regulators acknowledged that the two complementary approaches would reduce comparability; but on balance they thought each approach would be suited to different circumstances because they had different advantages and disadvantages. A few respondents believed that, under their recommended changes to the temporary exemption, there would be less need for the overlay approach because the temporary exemption would apply to a broader population of entities and in circumstances envisaged for the overlay approach. Those respondents recommended that the temporary exemption should be modified so that a consolidated reporting entity could report non-insurance activities under IFRS 9 and insurance activities under IAS 39 (ie using a ‘below the reporting entity level’ assessment) (discussed in paragraphs 30 to 39).

11. A few believed that the Board should address concerns about the different effective dates of IFRS 9 and the forthcoming insurance contracts Standard by deferring the mandatory effective date of IFRS 9 to 2021 for all entities. They thought that doing so would achieve greater comparability than the ED proposal that permitted only a subset of entities to apply the temporary exemption.

### *Temporary exemption from IFRS 9*

12. Most preparers, national standard-setters and actuarial and accountancy bodies stated that:

    (a) the temporary exemption would be the most effective approach to address the concerns about the different effective dates of IFRS 9 and the forthcoming insurance contracts Standard, because their primary concerns are the understandability of the information that would be presented if IFRS 9 is applied before the forthcoming insurance contracts Standard, and the costs that would arise if an entity applies IFRS 9 in 2018 and, later on, the forthcoming insurance contracts Standard. For example, the costs that would arise in assessing the business models of financial assets and the FVO elections on initial application of IFRS 9 and again for particular financial assets when the forthcoming insurance contracts Standard is applied. Some believed that the temporary exemption was the only approach that addressed all the concerns discussed in paragraph 6; and

(b) they *did not object* to the overlay approach, because they were aware of a few entities that preferred it compared to the temporary exemption. Often this comment was made in conjunction with the observation that they did not object as they could see it may be relevant for others while emphasising that they viewed it as being inadequate for their own purposes as it only address accounting mismatches, and

(c) they believed that more entities that they considered to be ‘pure’ insurers should qualify to apply the temporary exemption.

13. A few did not support the temporary exemption, including some preparers that would qualify for it, for the following reasons:

(a) entities applying the temporary exemption would still need to develop the information systems to apply IFRS 9 in the future and therefore, they question whether there will be an incremental cost to apply IFRS 9 by the mandatory effective date of 2018 or whether the difference is primarily the timing of when such costs are incurred; or

(b) they currently measure their assets at FVPL and hence they think that the implementation of IFRS 9 in 2018 would not pose any problems (eg in South Africa) or are significantly advanced in their implementation of IFRS 9.

A few of those (eg from South America) who opposed the temporary exemption believe that the overlay approach is sufficient and appropriately and adequately addresses the concerns of possible increases in accounting mismatches and temporary volatility.

### *Overlay approach*

14. Of those that believed that the temporary exemption was a more effective approach than the overlay approach for addressing the concerns discussed in paragraph 6, most think that the cost of applying this approach is the primary deterrent to the application of the overlay approach. Some also view this approach as inadequate as it only addresses the issue of accounting mismatches rather than all of the issues they consider arise from the difference in effective dates between IFRS 9 and the forthcoming insurance contracts standard.

    (a) Some included the costs of implementing IFRS 9 when considering the costs of the overlay approach, even though IFRS 9 will eventually need to be applied by entities that apply the temporary deferral. Some thought that applying IFRS 9 would not result in more useful information compared to IAS 39 for insurers, because insurers typically invest in investment-grade securities so the ECL approach in their view is less important, and they are unlikely to apply the hedge accounting requirements.

    (b) Some stated that there are incremental costs in applying the overlay approach when compared to applying ‘pure’ IFRS 9 or IAS 39. For example, under the overlay approach, two systems are required to produce IAS 39 and IFRS 9 measurement information for qualifying assets and to determine the differences between those two measurements. This would increase the costs of producing financial statements and also increase audit costs. They stated that there may also be significant second-order effects of applying the overlay approach (eg on deferred tax and the application of shadow accounting), which might add to those costs. A few stated that there are no existing information technology systems that allow for an automated reconciliation of IAS 39 and IFRS 9. They think the additional costs of the overlay approach outweigh the benefits, because such systems would need to be in place for only a short time.

    (c) Some felt that it might be confusing for users to understand the information produced, because the statement of comprehensive income would contain both IAS 39 and IFRS 9 information. In addition, they note that the overlay approach does not addresses the additional volatility that may arise in equity from assets currently measured at amortised cost under IAS 39 and that are required to be measured at FVPL or FVOCI under IFRS 9[4].

15. In contrast, some preparers stated that the costs of the overlay approach are not significant, for example, those that intend to apply it to financial assets that are classified at available-for-sale in accordance with IAS 39 and are measured at FVPL in accordance with IFRS 9. They have noted that the information required by the overlay approach is currently captured in their existing systems and therefore the costs of applying the overlay approach are relatively minor.

16. Other preparers who supported the overlay approach have stated that they intend to apply it because:

    (a) They are significantly advanced in their implementation of IFRS 9 and did not want to waste their efforts to date by applying the temporary exemption.

    (b) Their accounting systems for the non-insurance and insurance activities are integrated which would make it impractical to apply IFRS 9 to some financial assets and IAS 39 to others. This assumes that the temporary exemption from applying IFRS 9 is applied below reporting entity level. For such entities, it would be less costly to apply IFRS 9 to all financial assets and an overlay adjustment to a chosen subset of the population.

    (c) They are compared with banks rather than insurers and hence, they do not think that applying the temporary exemption is appropriate because this will reduce comparability with their main peers.

[4] This only arises to the extent insurers hold assets *measured at amortised cost* under IAS 39. If assets are measured using AFS or are already FVPL, under IAS 39, there is no additional effect on equity of applying IFRS 9 and/or the overlay approach.

## Question 3—The overlay approach

17. Most agreed with the proposal in paragraph 35B of the ED that the overlay approach should apply to assets that are:

    (a) measured at FVPL in applying IFRS 9 but would not have been measured at FVPL in their entirety under IAS 39; and

    (b) designated as relating to contracts that are within the scope of IFRS 4.

18. Some asked the Board to clarify the criterion described in paragraph 17(b) through additional guidance or examples; for example, whether surplus funds or capital assets would qualify. In addition, a few respondents asked the Board to amend the criterion in paragraph 17(b) to restrict the assets that may be designated as relating to contracts within the scope of IFRS 4 (eg restrict to assets in the same legal entity as the insurance liabilities).

19. Some stated that it was important that the requirements reflect the way in which those assets are managed rather than create an arbitrary split. Their concerns stem from the fact that some entities have operations that are under different regulatory and GAAP regimes, which may cause issues if the designation is based on unduly strict criteria that would not accommodate such differences.

### *Presentation in the Statement of Comprehensive Income*

20. The ED proposed that entities applying the overlay approach would have to provide information about the line item effects of the adjustment made to profit or loss. This could be provided either on the face of the financial statements or in the notes to the financial statements. Consequently, an entity would be able to choose to provide a single line adjustment for the effect of the overlay approach to arrive at an adjusted profit or loss figure, or to present the adjustment on a line-by-line basis. However, irrespective of the approach taken, the ED proposed that a single line item for the amount of the adjustment would be required to be provided on the face of the financial statements (either in the profit or loss statement or in other comprehensive income).

21. Some believed that the Board should specify the presentation, instead of allowing flexibility, because they felt that a choice of presentation for an approach that is

itself optional gives rise to too many potential outcomes. However, they had different views on what should be required:

(a) some believed that the line items related to financial instruments in profit or loss should reflect IFRS 9, because they believed that this would provide more useful information and improve comparability with those using ‘pure’ IFRS 9; but

(b) in contrast, a few believed that those line items should reflect IAS 39.

22. A few have asked for clarification on the presentation of the overlay adjustment (eg the presentation of the income tax impact (ie pre- or post-tax)).

23. Some were confused about the proposal for the presentation alternatives (described above) because some understand paragraph 35A of the ED, which states that ‘an entity reclassifies amounts from profit and loss to OCI’, as being both a recognition and presentation requirement for several separate line items. In fact, that proposed reclassification requirement is solely a recognition requirement.

## Question 4—The temporary exemption from applying IFRS 9

24. The ED proposed that entities whose predominant activity is issuing contracts within the scope of IFRS 4 should qualify for the temporary exemption. The assessment of the predominant activity:

    (a) is proposed to be determined by comparing the entity's liabilities arising from contracts within the scope of IFRS 4 to the total carrying amount of its liabilities, and as a high threshold. Paragraph BC65 of the ED's Basis for Conclusions discussed, as an example, that if three-quarters of an entity's liabilities arise from contracts within the scope of IFRS 4 (and one-quarter are liabilities arising from other activities), the entity would not meet the predominance condition; and

    (b) is determined at the reporting entity level (ie it considers all the liabilities of the reporting entity). Accordingly, the temporary exemption from IFRS 9 would apply to all of the financial assets and financial liabilities of the reporting entity (ie to all of the financial assets and financial liabilities presented in consolidated financial statements).

25. The following paragraphs discuss the feedback received on:

    (a) the criteria to decide which entities qualify for the temporary exemption (in paragraphs 26-29);

    (b) whether the assessment is made at the reporting entity level (in paragraphs 30-39); and

    (c) other aspects of the ED proposals for the temporary exemption (in paragraphs 40-45).

### *Criteria*

26. Nearly all the respondents that supported the temporary exemption recommended changes to increase the number of entities that would qualify for the temporary exemption. However, there were mixed views on how to achieve this:

    (a) Some recommended a principle-based approach to assessing predominance. They argue that a principle-based approach is more consistent with IFRS Standards. Of these respondents, some recommended a range of quantitative and qualitative factors, but did not necessarily provide examples of these factors. Some of these believed that predominance criteria based on the relative size of insurance contract liabilities to total liabilities of an entity may not be an accurate measure of predominant insurance activities because there are difference in the measurement of insurance liabilities across different jurisdictions and products (eg between short duration and long duration contracts). A few that provided examples proposed using a ratio based on revenue, a proportion of the entity's full-time employees, or other metrics. Other examples provided are similar to that discussed in paragraph 26(b) .

(b) Some recommended that the liability-based criterion is retained but supplemented with additional factors to assess predominance:

(i) whether the entity is a regulated entity, because they note that insurance is regulated in most jurisdictions. However, some were concerned that:

1. using a 'regulated entity' criterion might inappropriately exclude some entities because of their group structures, for example, if:

    a. The holding company in a group is not regulated as an insurer.

    b. Legal entities in the group that hold the assets that back the insurance liabilities are not regulated as insurers.

2. there may be differences between contracts within the scope of IFRS 4 and those within the scope of insurance regulation.

3. There are differences in regulation between jurisdictions, which may result in a lack of comparability.

(ii) Segmental disclosure based on business activities.

(c) Some believe that 'predominance' should be replaced with 'significant' or 'material' insurance activities.

(d) Some, on balance, support basing the predominant criterion on a consideration of the liabilities, because such a criterion:

(i) is simple and pragmatic; and

(ii) is clear and unambiguous. Providing clarity on whether a reporting entity would meet the qualification for temporary deferral would make the criterion auditable and enforceable.

27. Many suggested specific changes to the ratio used to assess the predominance of insurance activities.

(a) Most provided examples of some liabilities they believe should not have an effect on whether an entity qualifies for the temporary exemption or not (commentators raised differing examples). For example:

(i) differences in funding structures (ie whether capital is raised solely via issuing equity instruments or through issuing both debt and equity instruments);

(ii) pension liabilities;

(iii) current and deferred tax liabilities;

(iv) written put options on non-controlling interests in consolidated insurance funds; and

(v) derivatives that are hedging insurance liabilities.

Some recommended adding specific liabilities to the numerator, while others suggested deducting liabilities from the denominator. Of those that advocated adding specific liabilities to the numerator, these were generally specific liabilities some viewed as being related to insurance activities. In contrast, others asked for some specific liabilities to be deducted from the denominator because they viewed the liabilities as unrelated to the type of business activity in which an entity engages and thus is not an effective means of identifying pure insurers.

(b) Most think that the numerator should include investment components that are unbundled under IFRS 4. Some entities are applying the financial instruments requirements (ie IAS 39) as permitted by IFRS 4 to those investment components (eg premium refunds, or a deferred annuity prior to the annuitisation option being exercised). By only including liabilities accounted for in accordance with IFRS 4 in the denominator there was a concern that an inappropriate distinction was being drawn between entities writing like contracts.

(c) Many consider that the presence of investment contract liabilities should not affect whether an entity qualifies for the temporary deferral. They argue:

(i) some of these contracts are sold alongside similar products issued with significant insurance risk;

(ii) in some jurisdictions, these contracts are regulated as insurance contracts even though they do not meet the definition of an insurance contract under IFRS 4 because the contracts have no significant insurance risk;

(iii) those investment contract liabilities are accounted for at FVPL under IAS 39. The liabilities are backed by assets accounted for at FVPL under IAS 39. They stated that these liabilities and assets will continue to be measured at FVPL under IFRS 9 and thus implementing IFRS 9 will have no material impact on these contracts; and

(iv) a few viewed that these contracts are not different economically to investment contracts, in which asset managers typically do not recognise the assets and liabilities of the fund on their balance sheets because they are acting in the capacity of an agent.

*Threshold*

28. Some commented on the example in paragraph BC65 of the Basis for Conclusions that if three-quarters of entity's liabilities arise from contracts within the scope of IFRS 4, then the entity would not meet the predominance condition, as follows:

(a) Some stated that the example should either be deleted, because it is a bright line, or, if the Board is intending it to be mandatory guidance, that the example should be moved into the body of the Standard.

(b) Some suggested that the threshold should be lowered because a ‘pure’ insurance company is likely to have liabilities other than those arising from contracts within the scope of IFRS 4 (eg tax) and as a result may not meet the threshold. This assumes that the proposed ratio in the ED would remain unamended. A few commentators recognised that there was a trade-off between:

(i) retaining a relatively simple to calculate predominance test (as proposed in the ED) with a lower threshold percentage than that proposed in the ED; or

(ii) a more complicated predominance test that is more tailored to insurance activities with a threshold percentage equal to or greater than that proposed in the ED.

(c) A few respondents suggested that the threshold should be raised if the Board were to amend the ratio by adding to the numerator and/or subtracting from the denominator, as recommended in paragraph 27.

29. The staff note that if the Board were to amend the eligibility criteria as discussed in paragraph 26 and/or change the ratio as discussed in paragraph 27, but retain that the assessment is at the reporting entity level, the population of entities qualifying for the temporary exemption would be larger than would be captured by the proposals in the ED. Nevertheless, groups with substantial non-insurance and non-investment management services (eg banking activities) would still not qualify for the temporary exemption because the assessment is conducted at the reporting entity level.

### *Reporting entity level*

30. The following section discusses the feedback received on the proposal to make the assessment for the temporary exemption at the reporting entity level.

31. There were strongly held views on whether the assessment should be at the reporting entity level:

(a) Most regulators supported assessing at the reporting entity level as proposed in the ED.

(b) Most preparers, auditors, standard-setters, and accounting and actuarial bodies supported the ED proposal, but believed that an alternative assessment was necessary because there were some financial conglomerates that would not qualify if the assessment was at the reporting entity level as a result of their substantial banking activities. There appeared to be differences in views about whether there should be: (i) an assessment at both the reporting entity level and below the reporting entity level; or (ii) an assessment only below the reporting entity level[5].

(c) Some preparers, standard-setters, and accounting bodies supported the ED proposal that the assessment should be at the reporting entity level, but stated that they would also support the Board if it were to seek a solution for financial conglomerates. However some said they would be concerned if such an approach would require a more onerous assessment for the pure insurers (eg an assessment according to each legal entity that could result in small banking entities within a large insurance group being ineligible for the temporary exemption in the group financial statements).

32. Those who supported the ED proposal for assessing eligibility for the temporary exemption at the reporting entity level (eg most of the regulators) argued that:

(a) an entity is required under IFRS Standards to report using consistent accounting policies, because that provides the most useful information. They argued that it is confusing for users of financial statements to have a mix of financial assets reported using IAS 39 and IFRS 9 in a single set of financial statements.

(b) there are practical issues in deciding which assets, or groups of assets, would qualify for the temporary exemption if it is applied below the

[5] This distinction can be an important one. For example, consider a group with a banking subsidiary that accounts for 10% of the financial liabilities of the group. If an assessment is *only* made below the reporting entity level only parts of the group that meet the relevant test would be allowed to apply the temporary exemption – so the banking subsidiary would have to apply IFRS 9 in its standalone financial statements and this would also be reflected in the group financial statements. In contrast if the test is undertaken at both the reporting entity (consolidated) level and below the reporting entity level if the entire group qualifies for the temporary exemption, the entire group (including that part that relates to the banking subsidiary) would be allowed to apply IAS 39.

reporting entity level, because sometimes there is no clear distinction (eg when the financial assets could back both the insurance and non-insurance activities).

(c) assessing at the reporting entity level avoids the disadvantages of requiring the consolidated financial statements to report under IFRS 9 for non-insurance activities and under IAS 39 for its insurance activities. For example:

(i) requiring an entity to prepare consolidated financial statements that apply IFRS 9 for non-insurance activities and apply IAS 39 for insurance activities is more costly. These costs are similar to those raised by others about the overlay approach, as discussed in paragraph 14(b) above.

(ii) there is a risk of arbitrage by a group avoiding recognition of ECLs on riskier financial assets by acquiring or transferring those assets to the business activity that qualifies for the temporary exemption.

(d) the costs and disadvantages of assessing below the reporting entity level far outweigh their concerns that assessing at the reporting entity level may potentially result in an entity qualifying for the temporary exemption and applying IAS 39 to small amounts of banking activities (as could occur based on the proposed predominance test).

33. In contrast, those that recommended that the Board should seek an approach that would allow parts of a financial conglomerate related to insurance contracts to continue to apply IAS 39 argued the following:

(a) They believe that there should be a level playing field between:

(i) a group that would qualify for temporary exemption as a whole; and

(ii) entities/businesses within a group that would meet the temporary exemption on a stand-alone basis, but would not as a group qualify to apply the temporary exemption because of significant banking or other non-insurance activities in the group.

(b) They object to banking activities of a group being able to apply IAS 39 in group financial statements if the group as a whole qualifies for the temporary exemption.

34. The respondents with the view in paragraph 33 accept that their recommendation contravenes the principle of requiring uniform accounting policies in the consolidated financial statements of a group. However, they consider that this outcome is acceptable for a short period of time because:

(a) the effects of applying both IAS 39 and IFRS 9 can be explained by disclosure;

(b) they imply that users of financial statements do not use the information from the consolidated financial statements of conglomerates, but instead focus on segmental information; and/or

(c) they place more weight on finding a pragmatic solution to allow more entities that are considered to be ‘pure’ insurers to qualify for the temporary exemption.

35. A few respondents were confused about the ED’s proposal that the reporting entity would conduct the assessment for the temporary exemption at the reporting entity level (ie for a holding company and its subsidiaries presenting consolidated financial statements, the assessment would be conducted considering the entire group). Instead, they thought the ED required that the assessment would be conducted only at the holding company level and that the assessment would also apply to its subsidiaries’ separate financial statements.

*Mechanics of applying the temporary exemption below the reporting entity level*

36. There were different suggestions for an assessment that would apply below the reporting entity level:

(a) Some suggested an assessment based on the legal entity (stand-alone or in combination with its subsidiaries or other entities that are similarly controlled). For example, some suggest eligibility should be assessed by each legal entity in the group. However, others would not support such an assessment based solely on the legal entity. This is because it is onerous to apply and in large groups there may be legal entities that may fail such an assessment because of the lack of any insurance contracts in those entities, even though those legal entities may legitimately be set up as either a holding company or a subsidiary of an insurance entity that manages the investments for insurance business.

(b) Others would not use the legal entity as its reference point. Instead, they suggested using, for example, segmental reporting or some other basis that could mean the legal entity could apply the temporary deferral to some of its financial instruments.

(c) Some advocated a ‘waterfall’ approach, whereby an entity would first consider whether the consolidated group qualifies for the temporary exemption, and, if not, subsequently consider whether sub-groups within the reporting entity qualify.

*Transfers*

37. Some acknowledged the Board’s concerns about the accounting arbitrage that might arise when there are transfers between parts of the group that apply IAS 39 and those that apply IFRS 9. Some thought those concerns were overstated. In particular, they argued that transfers rarely occur between the banking and insurance entities within a group.

38. Accordingly, some recommend that the financial instrument accounting of the transferor entity should continue on transfer between the parts of the groups and that additional disclosures and presentation would provide transparency on such transactions. That means that, if an instrument was originated in part of the entity applying IAS 39 and was later transferred to another part of the entity applying IFRS 9, that instrument would continue to apply IAS 39 (and as a result the transferee would have some financial assets measured using IFRS 9 and some using IAS 39).

39. In contrast, some recommend that different measurement requirements should be applicable:

(a) when transferring from part of a group applying IAS 39 to another part of a group applying IFRS 9, the transition provisions of IFRS 9 would be applicable with additional guidance:

(i) the fair value is measured at the date of transfer if the financial asset is newly classified at FVPL or FVOCI and any gains or losses arising are recognised in profit or loss or OCI as appropriate; and

(ii) if the financial asset is newly measured at amortised cost under IFRS 9, the fair value on the date of the transfer is deemed to be the new gross carrying value.

(b) when transferring from part of a group applying IFRS 9 to a part of a group applying IAS 39, the asset should continue to be measured using IFRS 9.

## *Other issues*

40. This section summarises the feedback received on other aspects of the temporary exemption proposals.

### *Date of the assessment*

41. The Board proposed that the mandatory effective date of the amendments to IFRS 4 would be the same as the mandatory effective date of IFRS 9 (ie annual periods beginning on or after 1 January 2018). Accordingly, the entity would assess whether it qualifies for the temporary exemption on the date when it would otherwise be required to initially apply IFRS 9.

42. Some said that entities would need to assess whether they are eligible for the temporary exemption before that date to allow non-qualifying entities adequate time to manage their application of IFRS 9. Accordingly, they recommend an earlier assessment date. In addition, a few were concerned that the choice of the assessment date could affect the assessment of the qualification due to market fluctuations.

*Reassessment*

43. Most did not support the ED proposal that the entity would need to reassess whether it qualifies for the temporary exemption when there has been a demonstrable change in the structure of the entity (eg the acquisition and disposal of parts of the business). This is because they believed that there would be insufficient time to implement IFRS 9 for the annual period immediately after the entity determines it no longer qualifies for the temporary exemption. Some suggested that the implementation of IFRS 9 would require a period of approximately three years.

44. The ED did not propose an annual reassessment of eligibility for the temporary exemption. However, some commented that an annual assessment would not be feasible for the same reason as those that did not support reassessment when there is a change in structure of the entity, as discussed in paragraph 43.

*Disclosure*

45. There were mixed views on the disclosures proposed in paragraphs 37A(c)-(d) of the ED for entities applying the temporary exemption:

    (a) Some emphasised that it is important that there is sufficient disclosures on the credit quality of financial assets that will continue to be measured using an incurred loss model.

    (b) Some preparers disagreed with the proposed disclosure requirements because they believed those disclosures would be burdensome. They believed that any disclosures that will require the entity to run two reporting systems (ie IFRS 9 on top of IAS 39) should be avoided.

    (c) Some agreed that it is important that additional disclosures are required. However, they did not understand the rationale for the disclosure in paragraph 37A(c), which required fair value information for financial assets with contractual terms that do not meet the solely payments of principal and interest criterion in IFRS 9.

### Question 5—Should the overlay approach and the temporary exemption from applying IFRS 9 be optional?

46. Most agreed that the overlay approach and temporary exemption should be optional. Some have stressed that the optionality is important. For example. some insurance subsidiaries of banking institutions in particular jurisdictions (eg Canada) would prefer to apply IFRS 9 at its mandatory effective date because of operational and business reasons.

47. Most agreed that entities should be allowed to stop applying the overlay or temporary exemption before the effective date of the forthcoming insurance contracts Standard. Although a few had concerns about the proposal to permit entities to stop applying the approaches, because this could result in a reduction of comparability for the same entity over time.

48. Some (eg regulators) viewed that the proposals on the optionality of the temporary exemption and the overlay approach (discussed in paragraphs 46-47) are important, because they do not think entities should ever be prohibited from applying IFRS 9, given that they consider IFRS 9 to be a significant improvement compared to IAS 39.

### Question 6—Expiry date for the temporary exemption from applying IFRS 9

49. The ED proposed that the temporary exemption from applying IFRS 9 would expire in 2021. There were mixed views on the proposed expiry date:

(a) Some, mostly preparers, did not support the proposed fixed expiry date because they believed that insurers should initially apply IFRS 9 and the forthcoming insurance contracts Standard at the same time. They think the concerns addressed by the temporary exemption will continue to be applicable after 2021, if the forthcoming insurance contracts Standard is not effective by that date.

(b) Some supported the proposed expiry date, but only because they think the forthcoming insurance contracts Standard is urgently needed and should be effective by that date. Some thought that the expiry date would be a good incentive for the Board to issue the final Standard. They believed that the Board could and should issue the forthcoming insurance contracts Standard to meet this deadline. If the new Standard is further delayed for a reasonably short period, others implied that the Board should consider extending the fixed expiry date of the temporary exemption. While some (eg from Europe) supported the proposed expiry date given current expectations for the finalisation of the forthcoming insurance contracts Standard, they do not agree that the overlay approach would sufficiently address the concerns raised if the temporary exemption expires before the mandatory effective date of the insurance contracts Standard. This is consistent with their view that the concerns raised are addressed only by the temporary exemption from IFRS 9 (see paragraph 12(a)).

(c) A few (mostly regulators) supported the proposed expiry date and believed that the temporary exemption should expire even if the effective date of the forthcoming insurance contracts Standard is after 2021. They thought that it would be unacceptable for the temporary exemption to be extended, because doing so would exacerbate the lack of comparability existing between entities applying the temporary exemption and does that do not. They stated that those applying IAS 39 should not further delay applying the significant improvements in the reporting of financial instruments and, in addition, would not be comparable to all other entities applying IFRS 9.

(d) A few recommended that the proposed expiry date should also apply to the overlay approach, because they would like all entities to be applying a ‘pure’ IFRS 9 as soon as possible.

(e) A few (eg from Asia) are concerned that the presence of the expiry date will mean the Board will be unduly pressured to issue the new insurance contract Standard prematurely.

## Other issues raised

50. This section outlines feedback on two ED proposals about which the Board did not ask a question.

### *First-time adopters of IFRS*

51. The ED proposed that first-time adopters of IFRS would be prohibited from applying the overlay approach and the temporary exemption.

52. Some (eg from Singapore and Italy) disagreed with the ED proposal because:

    (a) they believe the concerns addressed by the ED are also applicable to first-time adopters. They do not believe that it would be feasible for first-time adopters to avoid any additional accounting mismatches or temporary volatility by adopting early the forthcoming insurance contracts Standard or amending their accounting policies to be consistent with the forthcoming insurance contracts Standard as suggested in paragraph BC82 in the Basis of Conclusions to the ED.

    (b) even though some first-time adopters have not reported in accordance with IFRS Standards in prior periods, they may already have reporting systems that produce IFRS numbers and thus have similar concerns as existing IFRS preparers. This could be the case:

        (i) if the first-time adopter is a subsidiary of an existing IFRS reporter (eg from Italy[6]); and

        (ii) if the jurisdictional requirements are similar to IFRS requirements (eg from Singapore[7]).

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[6] Italian insurance companies are required to apply the IFRS (as adopted by the EU) only in the consolidated financial statements. However, if the insurance company is listed and does not prepare consolidated financial statements because it has no subsidiaries, application of the EU IFRS is mandatory in the preparation of its individual financial statements.

Some think that in 2018 it is likely that IFRS Standards (as adopted by the EU) would also apply to the individual financial statements of Italian insurance companies which are subsidiaries of other companies.

[7] Singapore has adopted all effective IFRS, except for IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments*, and has made several modifications primarily to transition provisions and effective dates of the IFRS Standards that it has adopted. Accordingly, the standards, known as Singapore Financial Reporting Standards (SFRS), are substantially aligned with IFRS. The non-adoption of IFRIC 2 does not affect Singapore-incorporated companies (both listed and non-listed). The sole modification to

53. Accordingly, they recommend that the temporary exemption and overlay approach should be available to first-time adopters of IFRS Standards. A few recommend that the temporary exemption or the overlay approach should be permitted only if the first-time adopter is a subsidiary of a parent also applying the temporary exemption or the overlay approach.

### *Associates and joint ventures*

54. As a consequence of the ED proposals, an entity may be required to apply different accounting requirements to its investments in associates and joint ventures. For example, an entity that applies IFRS 9 might have an investment in an associate or joint venture that qualifies for the temporary exemption for the associate or joint venture's own IFRS reporting purposes and thus applies IAS 39. When applying the equity method for the accounting for investments in associates and joint ventures in accordance with IAS 28 *Investments in Associates and Joint Ventures*, paragraph 35 requires the entity's financial statements to be prepared with uniform accounting policies. Some (eg mostly from Asia) recommended an exemption from using uniform accounting policies, to minimise the costs of preparing financial statements. A few recommended consideration of a similar exemption to that currently available for non-investment entities with associates or joint ventures that are investment entities, that exempts the entity from any requirement to 'undo' the FVPL accounting applied by that associate or joint venture to their subsidiaries.

| Question |
| --- |
| Do the Board members have any questions on the summary of feedback received? |

requirements of IFRS does not affect listed Singapore-incorporated companies, but could affect non-listed Singapore-incorporated companies.

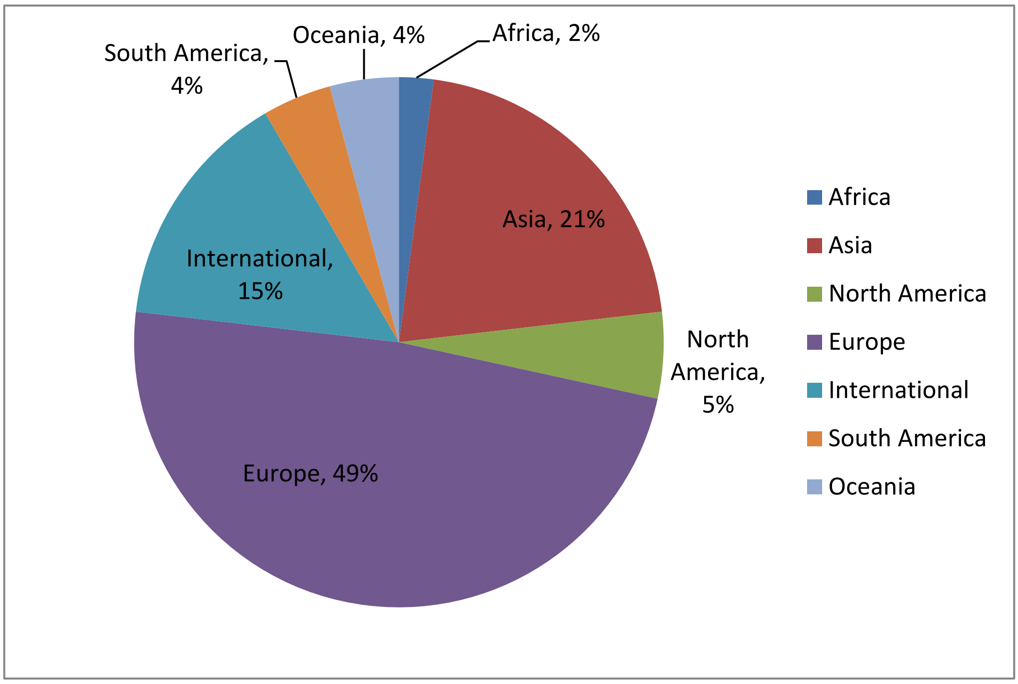
A new financial reporting framework identical to IFRS will be introduced for mandatory application by Singapore-incorporated companies listed on Singapore Exchange for annual periods beginning on or after 1 January 2018.

## Appendix: Information on the comment letters and outreach meetings

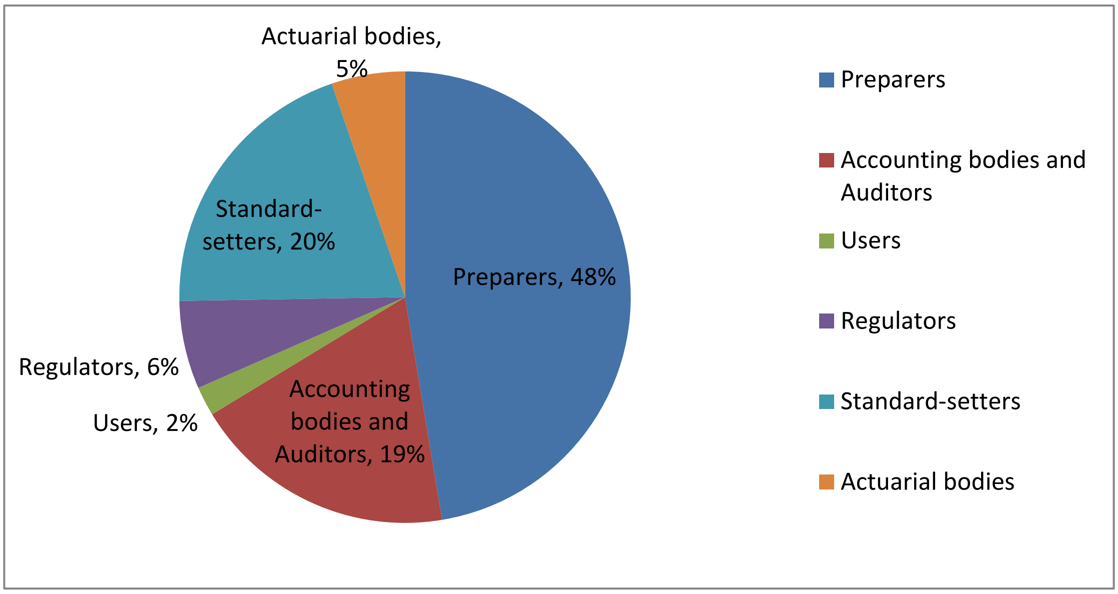
### *Comment letters*

A1. As at end of February 2016, we had received 95 comment letters, analysed by geographical region and type of respondent as follows:

### *Comment letter respondents by geographical location*



### *Comment letter respondents by type*




### *Outreach meetings*

A2. Before the publication of the ED, the Board had discussed this issue intensively with insurers, primarily from Europe. After the publication of the ED, staff and Board members met with insurers from Canada, Asia, and Europe in approximately 20 meetings[2]. Some of those meetings were held with groups of insurers in their own geographical location (eg Hong Kong, Canada and Europe).