Background

- **IFRS 9** *Financial Instruments* is effective from **1 January 2018**
- Currently, IFRS 4 applies to all issuers of insurance (e.g., banks). The replacement insurance contracts Standard is likely to be effective **after 2020**
- Some preparers raised concerns about the gap in effective dates
  - two consecutive major accounting changes
  - additional volatility in profit or loss could arise in this period

1 January 2018 | After 2020
---|---
**IAS 39 + IFRS 4** | **IFRS 9 + IFRS 4**

Period in which concerns arise

**IFRS 9 + new insurance contracts Standard**
The Board issued final amendments to IFRS 4 in September 2016, introducing two optional approaches:

**The overlay approach:**
- Available to all issuers of insurance contracts
- Recognises in OCI, rather than P&L, the volatility that could arise when IFRS 9 is applied before the new insurance contracts Standard
- Available until that new Standard is issued

**The temporary exemption:**
- Available to companies whose activities are predominantly connected with insurance
- IAS 39 is applied rather than IFRS 9
- Available until 2021 (or until the new insurance contracts Standard is applied if that is earlier)
Feedback on Exposure Draft

- 96 comment letters received (across all major geographical regions), discussions conducted with **70 users** of financial statements
- Main challenge: balancing needs of preparers with those of users
- Mixed views on:
  - Is there a need to address the two different effective dates?
  - Who should be eligible for temporary exemption?
  - Fixed expiry date for temporary exemption?
  - Disclosures for temporary exemption
  - Amount of optionality
The overlay approach

- IFRS 9 applied in full
- Entities reclassify between P&L and OCI
  - difference between IFRS 9 and IAS 39 amounts
  - for financial assets
    - measured at FVPL under IFRS 9 that would not be measured at FVPL under IAS 39; and
  - not connected with activities other than insurance.
- Objective is to remove any additional volatility from P&L in a transparent and consistent manner while maximising comparability
The temporary exemption: Deferral at reporting entity level

<table>
<thead>
<tr>
<th>IFRS 9</th>
<th>IAS 39</th>
</tr>
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</table>

- If the activities of the conglomerate are predominantly related to insurance:
  - The conglomerate could **choose** to apply IAS 39 to all financial assets in consolidated financial statements
  - However, if Subsidiary B publishes standalone IFRS financial statements it **must** apply IFRS 9

- If the activities of the conglomerate are NOT predominantly related to insurance:
  - The conglomerate **must** apply IFRS 9 to all financial assets in consolidated financial statements
  - However, if Subsidiary A publishes standalone IFRS financial statements it **could choose** to apply IAS 39
The Board decided eligibility for temporary exemption at the reporting entity level

- Focused on improving criteria to facilitate peer comparison (broadened eligibility)
- Can supplement with extra disclosures

<table>
<thead>
<tr>
<th>At reporting entity level</th>
<th>Below reporting entity level</th>
</tr>
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</table>
| • An entity applies either IAS 39 or IFRS 9  
  - IAS 39 is continuation of existing requirements  
  - IFRS 9 is better information  
  • User and regulator support | • An entity applies both IAS 39 and IFRS 9  
  • Two changes in a short period of time (IAS 39 → IAS 39 & IFRS 9 → IFRS 9)  
  • More complex for preparers and users to understand |

The Board decided eligibility for temporary exemption at the reporting entity level

- Focused on improving criteria to facilitate peer comparison (broadened eligibility)
- Can supplement with extra disclosures
The temporary exemption: Who can apply it?

• The company’s activities must be *predominantly connected with insurance*. To qualify, the company must have:
  – not previously applied IFRS 9 (other than the ‘own credit requirements’ in isolation);
  – significant IFRS 4 liabilities compared to total liabilities; and
  – predominance percentage \((P^*) > 90\%\) or \(80\% < P^* \leq 90\%\) and no significant activity unconnected with insurance

\[ *P = \frac{\text{Liabilities from contracts within the scope of IFRS 4} + \text{Investment contracts at FVPL} + \text{Other connected liabilities (eg tax)}}{\text{Total liabilities}} \]

• More insurers are expected to qualify than under the ED
Additional exemptions

• Further exemptions provided by the Board:
  – An investor applying IFRS 9 may retain the IAS 39 accounting used by its associate or joint venture applying the deferral (or vice versa); and
  – ‘First time adopters’ of IFRS Standards may apply deferral or overlay approach

• These additional exemptions allow more entities to qualify for relief than initially proposed in the ED
Users requested **additional disclosures** to compare companies applying IFRS 9 with those applying the temporary exemption.

The Board balanced the **costs for preparers of additional disclosures** and **users’ need for comparability**.

The Board decided to require additional disclosures to enable some comparisons, but rejected unduly onerous options (e.g., application of the expected credit loss model is not required).
**Disclosures: temporary exemption**

<table>
<thead>
<tr>
<th>Population 1*</th>
<th>Population 2**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assets with contractual cash flows that are solely principal and interest (SPPI) excluding those: (a) held for trading; or (b) managed on a fair value basis.</td>
<td>All other financial assets; ie those: (a) held for trading; (b) managed on a fair value basis; or (c) not SPPI.</td>
</tr>
<tr>
<td>Fair value information</td>
<td>Fair value information</td>
</tr>
<tr>
<td>Information about credit risk exposure, including: (a) carrying amounts by credit risk rating grades; and (b) for assets other than low credit risk, fair value information and carrying amounts.</td>
<td><strong>Similar to population of assets mandatorily measured at FVPL applying IFRS 9</strong></td>
</tr>
</tbody>
</table>

*Similar to population of assets to which expected credit loss requirements would apply*
Effective date

- Temporary exemption from IFRS 9 effective for annual periods beginning on or after 1 January 2018
- Overlay approach effective when an insurer first applies IFRS 9
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