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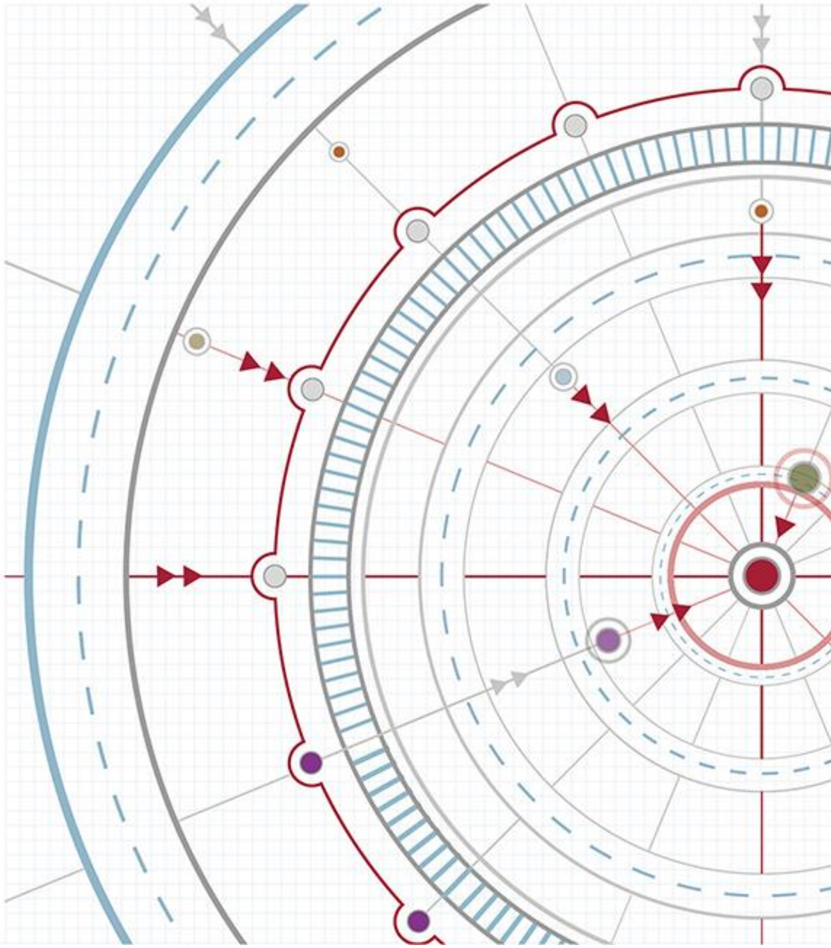

# Applying IFRS 9 with IFRS 4

Issued September 2016

The views expressed in this presentation are those of the presenter,
not necessarily those of the International Accounting Standards Board (the Board)
or IFRS Foundation.



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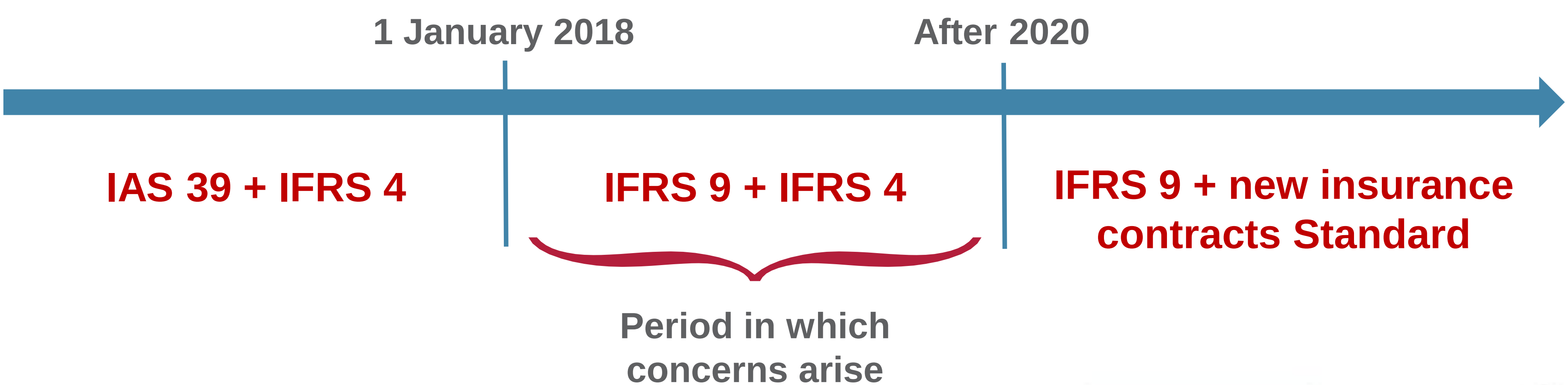
# Background



- IFRS 9 *Financial Instruments* is effective from 1 January 2018
- Currently, IFRS 4 applies to all issuers of insurance (eg 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



# Solution



- 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)

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# Feedback on Exposure Draft



Consultation, deliberation and outreach meetings → Dec 2015: Exposure Draft (ED) → Feedback on ED → **Sept 2016: Amendments issued**

- 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

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# 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

| Statement of Comprehensive Income | |
|---|---|
| | 20XX |
| Insurance contracts revenue | X |
| Incurred claims and expenses | (X) |
| **Operating result** | **X** |
| Investment income 'IFRS 9' | X |
| Interest on insurance liability | (X) |
| Overlay approach—adjustment | (X) |
| **Investment result** | **X** |
| **Profit or loss** | **X** |
| Overlay approach—adjustment | X |
| Effect of discount rate changes on insurance liability | (X) |
| **Other comprehensive income** | **X** |
| **Total comprehensive income** | **X** |

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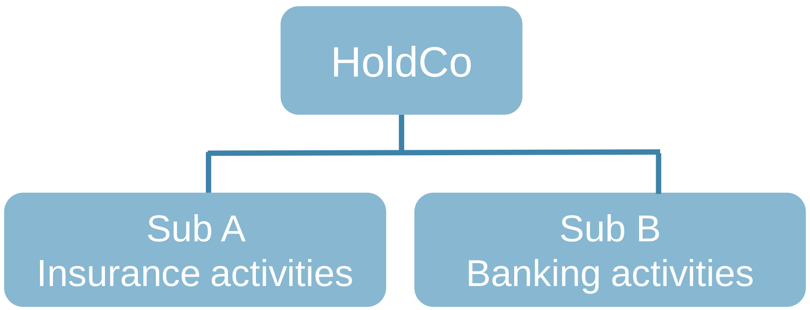
# The temporary exemption:
## *Deferral at reporting entity level*

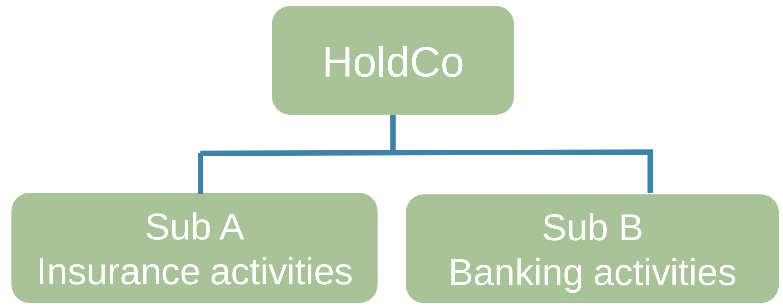
IFRS 9 IAS 39

- 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

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# The temporary exemption:
## *Deferral at reporting entity level*



| At reporting entity level | Below reporting entity level |
|---|---|
| • An entity applies <u>either</u> IAS 39 <u>or</u> IFRS 9<br>- IAS 39 is continuation of existing requirements<br>- IFRS 9 is better information<br>• User and regulator support | • An entity applies <u>both</u> IAS 39 and IFRS 9<br>• Two changes in a short period of time (IAS 39 → IAS 39 & IFRS 9 → IFRS 9)<br>• 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* ≤ 90% and no significant activity unconnected with insurance

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

- 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

# Disclosures: temporary exemption



- 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 (eg application of the expected credit loss model is not required)

# Disclosures: temporary exemption



| Population 1* | Population 2** |
| --- | --- |
| Financial assets with contractual cash flows that are solely principal and interest (SPPI) excluding those:<br>(a) held for trading; or<br>(b) managed on a fair value basis. | All other financial assets; ie those:<br>(a) held for trading;<br>(b) managed on a fair value basis; or<br>(c) not SPPI. |
| Fair value information | Fair value information |
| Information about credit risk exposure, including:<br>(a) carrying amounts by credit risk rating grades; and<br>(b) for assets other than low credit risk, fair value information and carrying amounts. | |

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

***Similar to population of assets mandatorily measured at FVPL applying IFRS 9*

# 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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