IFRS

STAFF PAPER

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REG IASB Meeting

Project	**Different effective dates of IFRS 9 and the new insurance contracts Standard**		
Paper topic	Comment letter period		

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Objective

1. The objective of this paper is to ask the IASB to decide upon a comment period for the forthcoming Exposure Draft to amend IFRS 4 *Insurance Contracts* ('the ED to amend IFRS 4').

2. At the September 2015 meeting, the IASB reviewed the due process steps taken and has confirmed that it is satisfied that it has complied with the due process requirements in developing the ED to amend IFRS 4. Accordingly, the IASB has directed the staff to ballot on an ED to amend IFRS 4.

3. The forthcoming ED to amend IFRS 4 will contain proposals to address the temporary possible accounting consequences arising from the application of IFRS 9 *Financial Instruments* (IFRS 9) prior to the application of the new insurance contracts Standard. Those proposals are:

   (a) to permit an entity to adjust profit or loss and other comprehensive income to remove from profit or loss the effect of newly measuring financial assets at fair value through profit or loss in accordance with IFRS 9 (ie the Overlay Approach); and

   (b) to permit a specified reporting entity to defer the application of IFRS 9 to all of its financial instruments for reporting periods no later than those beginning on or after 1 January 2021 (ie the Deferral Approach).

   Appendix A contains a summary of those proposals.

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Comment Period

4. Paragraph 6.7 of the IASB's *Due Process Handbook* states that the comment period on an Exposure Draft should normally be for a minimum period of 120 days. If the matter is narrow in scope and urgent, the IASB may consider a comment period of no less than 30 days, but it will only set a period of less than 120 days after consulting, and obtaining approval from, the Due Process Oversight Committee (DPOC).

5. The staff think that the ED to amend IFRS 4 is both narrow in scope and urgent, as discussed below.

Urgency

6. The proposals in the ED address the temporary accounting consequences of the different effective dates of IFRS 9 and the new insurance contracts Standard.

7. The effective date of IFRS 9 is for annual periods beginning on or after 1 January 2018, with early adoption permitted. The staff think that a shortened comment period is necessary so that the amendments to IFRS 4, if confirmed, can be finalised to allow at least one year for entities wishing to apply the finalised requirements to have sufficient time to implement those requirements. The staff note that until the Deferral Approach is confirmed, qualifying entities will have to assume that they will be required to apply IFRS 9 in 2018. Accordingly, the staff think that it is important for those entities to have clarity as soon as practicably possible.

8. On the other hand, entities would **not** need an extensive implementation period because:

    (a) the Overlay Approach builds on information that today is reported in accordance with IAS 39;

    (b) the Deferral Approach is a temporary exemption for most of IFRS 9 except limited disclosure requirements. The entity would need to continue to disclose that limited information when it implements IFRS 9 in full.

(c) both the Overlay Approach and the Deferral Approach would be optional.

9. The staff note that the IASB normally allows 18 months before requirements are effective to allow entities sufficient implementation time. While every effort is being made to expedite finalising the amendments to IFRS 4, and even assuming a shortened comment period, the staff think that it is unlikely that the requirements can be issued 18 months in advance of the effective date of IFRS 9.

Narrow scope

10. The proposals apply to entities that issue contracts within the scope of IFRS 4. The staff also note that:

    (a) the Deferral Approach applies to a narrower group of entities for which insurance activities are the predominant activity of the reporting entity.

    (b) the Overlay Approach would apply only to the financial assets that are measured at FVPL in accordance with IFRS 9 and would not have been measured at FVPL in accordance with IAS 39.

    (c) the IASB is proposing that the both the Overlay and Deferral Approaches should be optional.

11. The staff note that, while many support the Overlay Approach, some are worried about the extent to which it might introduce an operational burden for entities. In addition, the IASB has received mixed feedback on the necessity of a Deferral Approach, which would allow some entities to defer the application of IFRS 9 for a few years and may decrease the comparability between the entities applying the Deferral Approach and those that apply IFRS 9 in that period. Thus, although the proposals may be narrow in scope, there may be differing views among interested parties about the proposals. These differences are based on the wider implications for the financial reporting community and in particular on the question of comparability between financial institutions.

Recommended comment period and implications

12. The comment period needs to strike a balance between the need to finalise any amendments to IFRS 4 sufficiently in advance of the mandatory effective date of IFRS 9, and the need to allow interested parties to consider the proposals and provide input to the IASB. The staff note that the expected time needed to redeliberate the proposals and, if those proposals are finalised, to publish a final Standard is likely to be at least four months from the end of the comment period, assuming no unexpected issues arise. Accordingly, the staff recommend setting a comment period of 60 days, subject to consultation with, and approval from, the DPOC. A comment period of 60 days would facilitate issuing the amendments to IFRS 4 in the third quarter of 2016. The following table illustrates the staff's expected timetable.

Next steps	**Expected timetable**
Publish ED to amend IFRS 4	December 2015
60 day comment period ends	February 2016
Redeliberations on the proposals in the ED to amend IFRS 4	Second Quarter of 2016
Issuance of amendments to IFRS 4	Third Quarter of 2016

13. Such a comment period would balance the need to allow sufficient time for stakeholders to respond to the ED, yet also provide clarity about the proposals on a timely basis.

Question 1: Comment period of Exposure Draft
Does the IASB agree with a comment period of 60 days for the Exposure Draft to amend IFRS 4?

Appendix A: Summary of previous decisions

A1. In this Appendix, we have summarised the decisions taken in developing the Exposure Draft to amend IFRS 4.

The Overlay Approach

A2. The Overlay Approach would permit an entity to adjust profit or loss and other comprehensive income to remove from profit or loss the effect of newly measuring financial assets at fair value through profit or loss in accordance with IFRS 9. The IASB tentatively decided that:

(a) a reporting entity should be permitted to make an overlay adjustment in respect of financial assets that meet both of the following criteria:

(i) the financial assets are designated by the entity as relating to contracts that are within the scope of IFRS 4 *Insurance Contracts*; and

(ii) the financial assets are classified at fair value through profit or loss (FVPL) in accordance with IFRS 9 and would not have been classified as FVPL in their entirety in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39).

A3. An entity may change the designation of financial assets as relating to contracts within the scope of IFRS 4 only if there is a change in the relationship between the financial assets and contracts that are within the scope of IFRS 4.

Redesignation of financial assets

A4. The IASB tentatively decided that:

(a) an entity should be permitted to apply the Overlay Approach prospectively to financial assets when the eligibility criteria are met; and

(b) an entity should be required to cease applying the Overlay Approach when financial assets no longer meet the eligibility criteria. Any

accumulated balance of comprehensive income (OCI) relating to the overlay adjustment should be immediately reclassified to profit or loss (recycled).

A5. The IASB tentatively decided that:

(a) an entity should be permitted to apply the Overlay Approach prospectively to financial assets when the eligibility criteria are met;

(b) an entity should be permitted to apply the Overlay Approach only when it first applies IFRS 9, including if it chooses to apply IFRS 9 early;

(c) an entity should apply the Overlay Approach retrospectively to eligible financial assets on transition to IFRS 9. The entity should recognise as an adjustment to the opening balance of OCI an amount equal to the difference between the fair value of financial assets and their amortised cost or cost carrying amount, determined in accordance with IAS 39, immediately prior to transition to IFRS 9;

(d) an entity should restate comparative information to reflect the Overlay Approach if and only if the entity also restates that comparative information in accordance with IFRS 9;

(e) an entity should stop applying the Overlay Approach when it applies the new insurance contracts Standard and would be permitted to stop applying the Overlay Approach in any reporting period; and

(f) when an entity stops applying the Overlay Approach it should reclassify any balance of the prior periods' overlay adjustments accumulated in OCI to retained earnings at the later of:

(i) the beginning of the earliest reporting period presented; or

(ii) the beginning of the reporting period when the Overlay Approach was first applied.

Presentation

A6. The IASB tentatively decided that an entity that applies the Overlay Approach should present a single line item for the amount of the overlay adjustment in the profit or loss or the OCI section of the statement of comprehensive income or both. An entity may disaggregate the amount of the overlay adjustment in profit or loss.

Disclosures

A7. The IASB tentatively decided that entities that apply the Overlay Approach should disclose in each period:

(a) the fact that the entity has made an overlay adjustment, and the financial assets to which the overlay adjustment relates;

(b) the entity's policy for determining the financial assets for which an overlay adjustment is made;

(c) an explanation of the amount of the total overlay adjustment in each period in a way that enables users of the financial statements to understand how it is derived. In particular, an entity should disclose the following in respect of intra-group transfers and redesignation of financial assets:

(i) the amount of overlay adjustment in profit or loss and OCI relating to financial assets that are newly within the scope of the Overlay Approach;

(ii) the amount of overlay adjustment that would have arisen in profit or loss and OCI in a period if financial assets had not been removed from the scope of the Overlay Approach; and

(iii) the amount of overlay adjustment that is due to reclassification of amounts in accumulated OCI to profit or loss in respect of financial assets that have been removed from the scope of the Overlay Approach.

(d) the effect of the overlay adjustment on line items in profit or loss, to the extent that they are not separately identified on the face of the profit or loss account.

The Deferral Approach

A8. The Deferral Approach would permit deferral of the effective date of IFRS 9 for an entity that issues contracts within the scope of IFRS 4, if that activity is predominant for the reporting entity, and would apply to all financial instruments held by the reporting entity (ie at the 'reporting entity level'). The IASB tentatively decided that:

(a) an entity should be required to initially assess whether insurance activities are predominant for the entity, based on the level of gross liabilities arising from contracts within the scope of IFRS 4 relative to the entity's total liabilities at the date when the entity would otherwise be required to initially apply IFRS 9, ie for annual periods beginning on or after 1 January 2018.

(b) there should be no quantitative threshold for the assessment of predominance of insurance activities; however, the Basis for Conclusions for the potential amendments to IFRS 4 should include an example specifying the levels at which an entity's activities would not be considered predominant for the purpose of this assessment. The IASB indicated that the example should indicate a predominance threshold that is higher than in the example discussed in Agenda Paper 14C discussed at the IASB's September 2015 meeting.

(c) an entity should be required to reassess whether insurance activities are predominant for the entity at subsequent annual reporting dates if there is a demonstrable change in the corporate structure of the entity (for example, an acquisition or disposal of a business) that could result in a change of the predominant activities of the entity.

(d) if an entity were to conclude that insurance activities are no longer predominant for the entity as a result of that reassessment, the entity should be required to apply IFRS 9 from the beginning of the next annual reporting period, and to disclose in the reporting period in which the reassessment took place:

(i) the fact that the entity is no longer eligible for deferral;

(ii) the reason why it is no longer eligible; and

(iii) the date on which the change in corporate structure took place that resulted in the entity no longer meeting the predominance condition.

(e) an entity that has previously applied IFRS 9 is not permitted to stop applying IFRS 9 and revert to applying IAS 39.

Presentation and disclosures

A9. The IASB tentatively decided that an entity applying the Deferral Approach should disclose:

(a) the fact that the entity has chosen to delay the application of IFRS 9;

(b) an explanation of how the entity concluded that it is eligible for the deferral; and

(c) information about the characteristics and credit quality of financial assets; for example disclosure of:

(i) the fair value of financial assets that would not meet the 'solely principal and interest' characteristics test in IFRS 9, and so are mandatorily measured at fair value through profit or loss in accordance with IFRS 9; and

(ii) credit risk information about the financial assets that would not be mandatorily measured at fair value through profit or loss in accordance with IFRS 9 (such as the credit risk grades of such financial assets).

A10. The IASB concluded that providing full information about how financial assets would have been classified if IFRS 9 had been applied would be hypothetical in some cases and would therefore be likely to be of limited usefulness in those cases.

Transition

A11. The IASB tentatively decided that an entity should:

(a) be permitted to stop applying the Deferral Approach and apply IFRS 9 at the beginning of any annual reporting period before the new insurance contracts Standard is applied; and

(b) be required to stop applying the Deferral Approach from the beginning of the annual reporting period:

  (i) when the new insurance contracts Standard is initially applied; or

  (ii) on or after January 2021, if the new insurance contracts Standard has not been applied by this date. In this instance, the IASB confirmed that the entity could choose to apply the Overlay Approach.

(c) when an entity applies the Deferral Approach, the entity applies IFRS 9, including the applicable transition requirements, to the extent needed to provide the disclosures required under the Deferral Approach; and

(d) when an entity ceases to apply the Deferral Approach and applies IFRS 9 for the first time, the entity should follow the transition provisions in IFRS 9 and stop providing disclosures required under the Deferral Approach.