STAFF PAPER

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IASB Meeting

Project	**Amendments to IFRS 4: Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts***
Paper topic	Relief for investors in associates and joint ventures

CONTACT(S) Jane Pike jpike@ifrs.org +44 (0)20 7246 6925

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Purpose of this paper

1. This paper considers whether the Board should provide some relief to investors from the requirement in IAS 28 *Investments in Associates and Joint Ventures* (IAS 28) to use uniform accounting policies when applying the equity method of accounting. Specifically, this paper considers whether relief from requiring uniform accounting policies for financial instruments is appropriate if either the investor or the investee is applying the temporary exemption from applying IFRS 9 or the overlay approach.

2. This paper:

   (a) sets out the staff recommendations (paragraphs 3-7).

   (b) discusses the relevant proposals in the Exposure Draft *Applying IFRS 9* Financial Instruments *with IFRS 4* Insurance Contracts (IFRS 4) (Proposed amendments to IFRS 4) (the ED) and the feedback received (paragraphs 8-12).

   (c) provides the staff analysis and conclusions as follows:

      (i) whether some relief should be provided to investors from the requirement in IAS 28 to use uniform accounting policies when applying the equity method of accounting (paragraphs 13-35);

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(ii) whether relief is relevant when applying the overlay approach (paragraphs 36-40); and

(iii) the additional disclosures needed if the relief is granted (paragraphs 41-55).

(d) sets out the disclosures proposed in the ED, together with the Board's tentative decisions at its meeting in April 2016 to amend some of those proposals (Appendix A).

Staff recommendations

3. The staff recommend that the Board provides some relief from the requirement in paragraph 36 of IAS 28 that an entity must adjust the associate's or joint venture's accounting policies to make them conform to the entity's accounting policies when the entity applies the equity method. Specifically, we recommend:

(a) an investor that applies IFRS 9 be permitted (but not required) to retain the IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) accounting used by any associate or joint venture that applies the temporary exemption in its financial statements; and

(b) an investor that applies the temporary exemption be permitted (but not required) to retain the IFRS 9 accounting used by any associate or joint venture in its financial statements.[1]

4. We recommend that the relief should be available on an investment-by-investment basis.

5. We recommend that the disclosures required to be provided in the IFRS financial statements of investees that have applied either the temporary exemption or the overlay approach be reproduced in the investor's financial statements, subject to materiality considerations. In particular, we recommend that an investor should:

(a) provide the disclosures set out in paragraphs A1-A3 of Appendix A for each investee:

[1] References to an investor or investee that applies IFRS 9 include situations in which the overlay approach is used.

   (i) that is individually material to the investor's financial statements; and

   (ii) for which the temporary exemption has been applied in the financial statements used by the investor to apply the equity method for that investee.

(b) provide, in aggregate, the quantitative disclosures proposed in paragraphs 37A(c)-(d) of the ED (paragraph A1 in Appendix A), as amended by the Board's tentative decisions in paragraphs A2(b)-(d) for all investees:

   (i) that are individually immaterial but material in aggregate to the investor's financial statements; and

   (ii) for which the temporary exemption has been applied in the financial statements used by the investor to apply the equity method for those investees.

(c) provide the disclosures outlined in paragraph A4 of Appendix A for each investee:

   (i) that is individually material to the investor's financial statements; and

   (ii) for which the overlay approach has been applied in the financial statements used by the investor to apply the equity method for that investee.

(d) provide, in aggregate, the quantitative disclosures proposed in paragraphs A4(a)-(b) and A4(d) of Appendix A for all investees:

   (i) that are individually immaterial but material in aggregate to the investor's financial statements, and

   (ii) for which the overlay approach has been applied in the financial statements used by the investor to apply the equity method for those investees.

6. Consistently with the requirement for presenting summarised financial information for individually material investees in paragraph B14 of IFRS 12 *Disclosure of Interests in Other Entities* (IFRS 12), we recommend that the amounts disclosed be those included in the IFRS financial statements of the investee, and not the investor's share of those amounts.

7. Consistently with the requirement for presenting aggregated summarised financial information of individually immaterial investees in paragraph B16 of IFRS 12, we recommend that the amounts disclosed be the investor's share of those included by applying the equity method.

Background

Assessing eligibility for the temporary exemption at the reporting entity level

8. The ED proposed an optional temporary exemption from applying IFRS 9 for particular entities. Eligibility for the temporary exemption would be assessed only at the reporting entity level. Accordingly, the temporary exemption would apply to all of the reporting entity's financial assets and financial liabilities (ie either IFRS 9 or IAS 39 would be applied to all of the financial assets and financial liabilities in the consolidated financial statements).

9. In March 2016, the Board tentatively decided to confirm the ED proposals to provide a temporary exemption for some entities and that the eligibility for that temporary exemption would be determined only at the reporting entity level.

10. In reaching these tentative decisions, the Board determined that:

    (a) consistent with the feedback from many users of financial statements and regulators, it is more useful for a reporting entity to have consistent accounting policies within its financial statements (ie applying only one Standard, either IFRS 9 or IAS 39, to all its financial instruments) than to have financial statements with inconsistent accounting policies (ie applying IFRS 9 to some financial instruments and IAS 39 to others);

    (b) determining eligibility for the temporary exemption below the reporting entity level would not address the concerns about the different effective dates of the forthcoming insurance contracts Standard and IFRS 9 without an unacceptable loss of comparability and understanding, and

would also have the consequence of two accounting changes within a short period of time;[2] and

(c) providing an exemption below the reporting entity level would require new accounting guidance that could be complex and create a risk of earnings management.

Requests for relief from the requirement to use uniform accounting policies when applying the equity method of accounting

11. Paragraphs 35-36 of IAS 28 require an investor (ie the reporting entity) to adjust, when applying the equity method, an investee's (ie an associate's or joint venture's) accounting policies to make them conform to the investor's accounting policies. A few respondents to the ED asked the Board to consider providing relief from this requirement so that an investor could retain the financial instruments accounting applied by an investee. Respondents noted that this relief is particularly important when the investor is not eligible to apply the temporary exemption, and thus applies IFRS 9, but one or more of its investees is or are eligible and choose to continue applying IAS 39.

12. A few of those respondents noted that there is already similar relief for non-investment entity investors with investees that are investment entities (paragraph 36A of IAS 28).

Staff analysis

13. Paragraph 26 of IAS 28 notes that many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IFRS 10 *Consolidated Financial Statements* (IFRS 10). There is a long-standing requirement contained in paragraph 19 of IFRS 10:

[2] The Board determined that a change from reporting under IAS 39 to partial reporting under IFRS 9, followed by a later change to full reporting under IFRS 9 constitutes two major changes to accounting in a relatively short period of time, which undermines one significant reason for supporting the temporary exemption.

> A parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.

14. Paragraph 27 of IAS 28 confirms that the use of uniform accounting policies extends to the financial statements of an investee that are used when the investor applies the equity method:

> When an associate or a joint venture has subsidiaries, associates or joint ventures, the profit or loss, other comprehensive income and net assets taken into account in applying the equity method are those recognised in the associate's or joint venture's financial statements (including the associate's or joint venture's share of the profit or loss, other comprehensive income and net assets of its associates and joint ventures), **after any adjustments necessary to give effect to uniform accounting policies** (see paragraphs 35–36A). [Emphasis added.]

15. This requirement is further emphasised in paragraphs 35-36 of IAS 28, which state:

> 35 The entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.
>
> 36 Except as described in paragraph 36A, if an associate or a joint venture uses accounting policies other than those of the entity for like transactions and events in similar circumstances, adjustments shall be made to make the associate's or joint venture's accounting policies conform to those of the entity when the associate's or joint venture's financial statements are used by the entity in applying the equity method.

16. Therefore, an investor that has an interest in an associate or joint venture (ie an investee) is required to adjust the financial statements of that investee to conform with the investor's own accounting policies. As noted by some respondents, as a consequence, if an investee applies the temporary exemption in its financial

statements but the investor does not, the investor would be required to apply IFRS 9 to that investee's financial statements before applying the equity method. Conversely, if the investee does not apply the temporary exemption in its financial statements but the investor does, the investor would be required to unwind the IFRS 9 accounting used in that investee's financial statements and, instead, apply IAS 39 before applying the equity method.

17. The analysis in paragraph 16 is consistent with the Board's Basis for Conclusions on *Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10, IFRS 12 and IAS 28) (the 2014 Amendments). The 2014 Amendments introduced relief to non-investment entity investors with interests in investment entity associates or joint ventures. The relief permits an investor to retain, when applying the equity method, the fair value through profit or loss (FVPL) accounting used for an investment entity investee's subsidiaries in the financial statements of that investee (paragraph 36A of IAS 28). The background to that relief, and the Board's rationale for providing it, is discussed in the following paragraphs. They form the basis for some stakeholders' requests that the Board provide similar relief when the temporary exemption from applying IFRS 9 is used and the staff's recommendation that the Board consider doing so.

Existing relief in paragraph 36A of IAS 28

18. In October 2012, the Board issued *Investment Entities* (Amendments to IFRS 10, IFRS 12 and IAS 27). This introduced an exception to consolidation for a class of entities that are defined as 'investment entities'. With limited exceptions, an investment entity is required to measure its investments in subsidiaries at FVPL, instead of consolidating those subsidiaries. The exception to the consolidation requirement was introduced to reflect the unique business of investment entities.

19. The assessment for investment entity classification is conducted at the reporting entity level. This means that, if a reporting entity does not qualify as an investment entity, it does not have the unique business of an investment entity and is not eligible to apply the exception from consolidation. Consequently, if a parent entity that does not qualify as an investment entity has an investment entity subsidiary, it unwinds the FVPL used by its investment entity subsidiary for that

investment entity subsidiary's subsidiaries. Put another way, a non-investment entity parent is not permitted to 'roll-up' the FVPL treatment used by its investment entity subsidiary (paragraph 33 of IFRS 10). This requirement in paragraph 33 of IFRS 10 is consistent with the general requirement in paragraph 19 of IFRS 10 for a parent to prepare consolidated financial statements using uniform accounting policies for itself and its subsidiaries (paragraph 19 of IFRS 10 is reproduced in paragraph 13).

20. After the Board introduced the exception to consolidation, some stakeholders highlighted practical difficulties in obtaining the information needed, when applying the equity method, to unwind the FVPL accounting used in the financial statements of an investment entity investee. The stakeholders noted that the degree of practical difficulty is different for an investee situation compared to a subsidiary situation. This is because the investor does not control its investees and may not be able to gain access to the detailed information required to make the necessary adjustments to the investee's financial statements in a timely manner.

21. The Board noted that, without any relief, paragraphs 35-36 of IAS 28 would apply to a non-investment entity investor and its investment entity investees. This would mean that the subsidiaries of the investment entity investees would be required to be consolidated into the financial statements of the investment entity investees prior to the investor applying the equity method. The Board further noted that this is conceptually consistent with the requirement in paragraph 33 of IFRS 10 (paragraph BC46E of the Basis for Conclusions on IAS 28).

22. Through the 2014 Amendments, the Board provided relief to non-investment entity investors with interests in investment entity investees. This relief permits, but does not require, a non-investment entity investor to retain, when applying the equity method, the FVPL measurement applied in the financial statements of an investment entity investee for the investee's subsidiaries.

23. The Board decided to provide this relief because of concerns about the potentially significant practical difficulties or additional costs that may arise for an investor in unwinding the FVPL measurement applied by an investment entity investee for its interests in subsidiaries.

The temporary exemption—relief for investors in associates or joint ventures

24. As noted in paragraph 9, the Board tentatively decided that eligibility for the temporary exemption from applying IFRS 9 is determined at the reporting entity level. A reporting entity is eligible for the temporary exemption only if its activities are predominantly related to insurance. Consequently, in providing the temporary exemption, the Board is focussing only on entities with specific activities.

25. This is consistent with the Board's focus on the unique business activities of investment entities, which also is assessed at the reporting entity level (see paragraphs 18-19). If a reporting entity has substantial activities other than those activities required to qualify as an investment entity, then the reporting entity does not qualify for the exception from consolidation (paragraph BC278 of the Basis for Conclusions on IFRS 10).

26. The staff thinks that the Board's tentative decision to determine eligibility for the temporary exemption at the reporting entity level is consistent with the eligibility for the exception from consolidation in IFRS 10. We also think that this is consistent with the requirement in IFRS 10 to apply uniform accounting policies, in particular the requirement for a non-investment entity parent to unwind the FVPL accounting used by an investment entity subsidiary.

27. However, the staff are sympathetic to the requests made to the Board to consider providing relief from the requirement in IAS 28 to use uniform accounting policies for financial instruments when applying the equity method (see paragraph 11 of this paper). The main reasons that stakeholders gave for asking for the relief are the potentially significant practical difficulties and/or additional costs that may arise for an investor in obtaining the relevant information needed to adjust the investee's accounting policy for financial instruments to conform to the investor's policy. In particular, we think that the necessary information to apply IFRS 9 or unwind the application of IFRS 9 in the financial statements of an investee may not be available to the investor in a timely or cost-effective manner. This is because, as noted in paragraph 20, the investor:

    (a) does not control its investees; and

(b) may not readily be able to gain access in a timely manner to the detailed information required to make the necessary adjustments.

28. In addition, we note that when using the equity method, the investor does not recognise the underlying financial assets and financial liabilities of the investee on its balance sheet (as it would when it consolidates a subsidiary). Therefore, the difficulties identified in paragraph 10 that would arise if the Board permitted eligibility for the temporary exemption to be assessed below the reporting entity level are reduced when the investor applies the equity method.

29. We think that the practical difficulties and potential additional costs of obtaining the information needed to adjust the investee's accounting policy for equity accounting purposes is likely to outweigh the benefits. We also think that the resulting loss of consistency in accounting policies could be mitigated by requiring suitable disclosures (see paragraphs 41-55). Consequently, we recommend that the Board provide some relief from the requirement in IAS 28 to use uniform accounting policies for financial instruments when applying the equity method. This would be similar to the existing relief provided to non-investment entity investors in investment entity investees.

Further factors to consider

30. If the Board was to grant the relief that stakeholders requested, we think it should also consider whether such relief should be:

(a) available only if an investor applies IFRS 9 when its investee applies the temporary exemption or whether it should also be available when the investor applies the temporary exemption but its investee does not; and

(b) available on an investment-by-investment basis or should be applied to all of a reporting entity's investees.

Availability of relief

31. The majority of respondents that asked the Board to provide relief from the requirement in IAS 28 for uniform accounting policies focussed on the situation in which the investor does not (or, more particularly, cannot) apply the temporary

exemption but its investees do so in their financial statements. However, a couple of respondents asked for relief for the inverse, ie the investor applies the temporary exemption but its investees do not (or cannot).

32. The staff support the suggestion to provide relief in both cases because:

    (a) we see no compelling reason to provide relief in only one direction. This is because the practical difficulties in obtaining the information needed to unwind the investee's accounting for financial instruments may arise in both situations; and

    (b) we do not think that an investor, when applying the equity method of accounting, should be prevented from using IFRS 9 accounting in the financial statements of its investees.

33. Consequently, we recommend that any relief from the requirement in paragraphs 35-36 of IAS 28 to use uniform accounting policies should be available in both directions; ie:

    (a) an investor using the temporary exemption should be permitted to retain the IFRS 9 accounting used by an investee in its financial statements, and

    (b) an investor that is applying IFRS 9 should be permitted to retain the IAS 39 accounting used by an investee that is applying the temporary exemption in its financial statements.

Available on an investment-by-investment basis or applied to all investments

34. We acknowledge that permitting an investor to apply the relief on an investment-by-investment basis may reduce comparability between investees and between entities. However, if an investor could obtain the necessary information to make adjustments to the financial statements of some of its investees, preventing it from making those adjustments seems conceptually inconsistent with the requirement to use uniform accounting policies. In addition, preventing an investor from using the IFRS 9 information that is available for some of its investees may reduce the quality of information provided to users of the investors' financial statements.

This is because the information provided by applying IFRS 9 is superior to the information provided by applying IAS 39.

35. Consequently, we think that the relief should be available on an investment-by-investment basis. This is also consistent with the availability of the existing relief available for non-investment entity investors.[3]

The overlay approach

36. We did not receive any specific requests to provide relief from the requirement of paragraphs 35-36 of IAS 28 with regard to the overlay approach. This may be because the overlay approach is a designation approach, ie a financial asset qualifies for the overlay approach if it meets a specified condition *and* is designated as relating to contracts that are within the scope of IFRS 4. An entity may elect to use the overlay approach only when it first applies IFRS 9 (or when it applies IFRS 9 after previously applying only the own credit requirements in that Standard). However, if an entity elects to use the overlay approach, it does not have to apply it to all qualifying assets.

37. Therefore, if an investor:

   (a) applies the overlay approach but its investee does not, the investor may, when applying the equity method:

      (i) retain the IFRS 9 accounting used by the investee in its financial statements; or

      (ii) designate eligible financial assets held by the investee and use the overlay approach for those financial assets.

   (b) does not apply the overlay approach but its investee does apply it, the investor may, when applying the equity method:

      (i) retain the overlay approach used by the investee in its financial statements; or

      (ii) 'unwind' the overlay approach used by the investee in its financial statements.

[3] The Board proposed to clarify that the existing relief is available on an investment-by-investment basis through the Exposure Draft *Annual Improvements to IFRSs 2014–2016 Cycle*, published in November 2016.

38. If the investor decides, when applying the equity method, to designate different eligible assets than those designated by the investee, the investor would subsequently apply the general requirements that will be contained in the amendments to IFRS 4 for:

    (a) changing the designation of financial assets; and

    (b) initially applying or ceasing to apply the overlay approach.

39. Because a reporting entity does not need to apply the overlay approach to all qualifying assets, an investor may choose to apply the overlay approach to its own qualifying assets but not those of its investee, or vice versa, without contravening the requirement in paragraphs 35-36 of IAS 28 to use uniform accounting policies. Consequently, the staff conclude that there is no need to provide any relief from paragraphs 35-36 of IAS 28 for the overlay approach.

40. However, as a final observation, the staff note that the Board confirmed at its April 2016 meeting the proposal in the ED that an entity may elect to apply the overlay approach *only* when it first applies IFRS 9 (or when it applies IFRS 9 after previously applying only the own credit requirements in that Standard). As discussed in Agenda Paper 14B for that meeting, this means that an entity that does not elect to apply the overlay approach when it first applies IFRS 9 is not permitted to apply the overlay approach in subsequent periods. Therefore, if an entity does not elect to apply the overlay approach when it first applies IFRS 9 *and subsequently* makes an investment in an associate or joint venture that is applying the overlay approach in its financial statements, the entity must 'unwind' that overlay accounting when applying the equity method.

Disclosures

41. In April 2016, the Board considered the disclosures that will be required if an entity applies either:

    (a) the temporary exemption; or

    (b) the overlay approach.

42. The following paragraphs discuss the disclosures that the staff recommend be provided by an investor when the temporary exemption or the overlay approach is

used in the financial statements to which the investor applies the equity method for its investees.

43. For convenience, the disclosures proposed in the ED, together with the Board's tentative decisions at its meeting in April 2016 to amend some of those proposals, are reproduced in Appendix A.

The temporary exemption

Temporary exemption applied in the investee's financial statements and retained by the investor when applying the equity method

44. The staff think that the disclosures relating to the temporary exemption are equally applicable to the needs of users of an investor's financial statements when considering the effects of investees which the equity method has been applied, when those investees have applied the temporary exemption.

45. Consequently, we recommend that an investor should provide the disclosures set out in paragraphs A1-A3 of Appendix A for each investee:

    (a) that is individually material to the investor's financial statements; and

    (b) for which the temporary exemption has been applied in the financial statements used by the investor to apply the equity method for that investee.

46. Consistently with the requirement for presenting summarised financial information of individually material investees in paragraph B14 of IFRS 12, we recommend that the amounts disclosed be those included in the IFRS financial statements of the investee, and not the investor's share of those amounts.

47. In addition, we think that the investor should provide, in aggregate, the quantitative disclosures proposed in paragraphs 37A(c)-(d) of the ED (paragraph A1 in Appendix A), as amended by the Board's tentative decisions in paragraphs A2(b)-(d) for all investees:

    (a) that are individually immaterial but material in aggregate to the investor's financial statements, and

(b) for which the temporary exemption has been applied in the financial statements used by the investor to apply the equity method for those investees.

48. Consistently with the requirement for presenting aggregated summarised financial information of individually immaterial investees in paragraph B16 of IFRS 12, we recommend that the amounts disclosed be the investor's share of those included by applying the equity method.

49. We think that these disclosures should be required in all cases in which the temporary exemption has been used in the financial statements of investees for which the equity method has been applied. We think this should apply irrespective of whether the relief from applying uniform accounting policies proposed in this paper is taken, ie even if the investor is also applying the temporary exemption.

Temporary exemption applied in the investor's financial statements but not in the investee's financial statements used by the investor when applying the equity method

50. We think that disclosure requirements are minimal in cases in which the investor applies the temporary exemption but, when applying the equity method of accounting, retains the IFRS 9 accounting used by an investee. In such cases, we think that the investor should note that the recommended relief from applying uniform accounting policies for the investees has been taken and that, as a result, the temporary exemption has not been used in the investee's financial statements when applying the equity method.

The overlay approach

51. Consistently with the staff's view about disclosures relating to the temporary exemption, we think that the disclosures proposed in the ED relating to the overlay approach are equally applicable to the needs of users of financial statements when considering the effects of investees that have applied the overlay approach and for which the equity method has been applied.

52. Consequently, we recommend that the disclosures outlined in paragraph A4 of Appendix A be provided by an investor for each investee:

    (a) that is individually material to the investor's financial statements; and

    (b) for which the overlay approach has been applied in the financial statements used by the investor to apply the equity method for that investee.

53. Consistently with the requirement for presenting summarised financial information of individually material investees in paragraph B14 of IFRS 12, we recommend that the amounts disclosed be those included in the IFRS financial statements of the investee, and not the investor's share of those amounts.

54. In addition, we think that the investor should provide, in aggregate, the quantitative disclosures proposed in paragraphs A4(a)-(b) and A4(d) of Appendix A for all investees:

    (a) that are individually immaterial but material in aggregate to the investor's financial statements, and

    (b) for which the overlay approach has been applied in the financial statements used by the investor to apply the equity method for those investees.

55. Consistently with the requirement for presenting aggregated summarised financial information of individually immaterial investees in paragraph B16 of IFRS 12, we recommend that the amounts disclosed be the investor's share of those included by applying the equity method.

Questions for the Board

1) Does the Board agree with the staff recommendation to provide some relief from the requirement in paragraphs 35-36 of IAS 28 to use uniform accounting policies when using the equity method to account for interests in associates and joint ventures?

2) If so, does the Board agree that the relief should apply when either:

    a) the investor uses IFRS 9 in its financial statements but its investee uses the temporary exemption; or

    b) the investor uses the temporary exemption in its financial statements but its investee uses IFRS 9?

3) Does the Board agree with the staff recommendation to make the relief available on an investment-by-investment basis?

4) Does the Board agree with the staff recommendation to require an investor to reproduce, in its financial statements, the disclosures required to be provided in the IFRS financial statements of investees that have applied either the temporary exemption or the overlay approach, subject to materiality considerations. In particular, to:

    a) provide the disclosures set out in paragraphs A1-A3 of Appendix A for each investee:

        i) that is individually material to the investor’s financial statements; and

        ii) for which the temporary exemption has been applied in the financial statements used by the investor to apply the equity method for that investee.

    b) provide, in aggregate, the quantitative disclosures proposed in paragraphs 37A(c)-(d) of the ED (paragraph A1 in Appendix A), as amended by the Board’s tentative decisions in paragraphs A2(b)-(d) for all investees:

        i) that are individually immaterial but material in aggregate to the investor’s financial statements, and

        ii) for which the temporary exemption has been applied in the

financial statements used by the investor to apply the equity method for those investees.

c) provide the disclosures outlined in paragraph A4 of Appendix A for each for each investee:

   i) that is individually material to the investor's financial statements; and

   ii) for which the overlay approach has been applied in the financial statements used by the investor to apply the equity method for that investee.

d) provide, in aggregate, the quantitative disclosures proposed in paragraphs A4(a)-(b) and A4(d) of Appendix A for all investees:

   i) that are individually immaterial but material in aggregate to the investor's financial statements, and

   ii) for which the overlay approach has been applied in the financial statements used by the investor to apply the equity method for those investees?

5) Does the Board agree with the staff recommendation to require an investor to present the amounts disclosed consistently with the requirements for summarised financial information in IFRS 12. Specifically:

   a) the amounts disclosed for individually material investees be those included in the IFRS financial statements of the investee, and not the investor's share of those amounts; and

   b) the aggregate amounts disclosed for individually immaterial investees that are material in aggregate be the investor's share of those amounts included by applying the equity method?

Amendments to IFRS 4: Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*—Disclosures

The temporary exemption

A1. The ED proposed the following disclosures for entities applying the temporary exemption

> 37A If an entity applies the temporary exemption from applying IFRS 9 described in [draft] paragraph 20A, it shall disclose:
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> (a) the fact that it is applying the temporary exemption from applying IFRS 9;
>
> (b) how the entity concluded that it is eligible for the temporary exemption from applying IFRS 9;
>
> (c) the fair value at the end of the reporting period and the fair value change during the reporting period of financial assets that would be measured at fair value through profit or loss applying IFRS 9 because they do not meet the condition in paragraphs 4.1.2(b) and 4.1.2A(b) of that IFRS; and
>
> (d) information about the credit risk exposure, including significant credit risk concentrations, inherent in financial assets that would meet the condition in paragraphs 4.1.2(b) and 4.1.2A(b) of IFRS 9 and are not *held for trading* or managed on a fair value basis applying that Standard. To enable users of financial statements to assess those risks, an entity shall disclose by *credit risk rating grades* the *gross carrying amounts* of those assets at the end of the reporting period.
>
> 37B If, applying [draft] paragraph 20D, an entity concludes that its predominant activity is no longer issuing contracts within the scope of this IFRS, it shall disclose in the annual reporting period in which it reached that conclusion:

(a) the fact that it is no longer eligible to apply the temporary exemption from applying IFRS 9;

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

(c) the date on which the change in corporate structure occurred that made it ineligible.

Tentative decisions in April 2016

A2. In April 2016, the Board tentatively decided to confirm the disclosures for entities that apply the temporary exemption, with the following changes:

(a) require that:

(i) if the carrying amount of liabilities arising from contracts within the scope of IFRS 4 is not greater than 90 per cent of total liabilities, an entity should disclose any liabilities, other than those arising from contracts within the scope of IFRS 4, that were added to the numerator of the predominance ratio; and

(ii) an entity must disclose the information used to determine that the entity's activities are predominantly related to insurance if the predominance ratio is less than or equal to 90 per cent but greater than 80 per cent.

(b) amend the disclosure proposed in paragraph 37A(c) to require an entity to disclose the fair value at the end of the reporting period and the fair value change during the reporting period separately for:

(i) the financial assets specified in 37A(c); ie those assets with contractual cash flows that are not solely principal and interest (SPPI); and

(ii) all other financial assets; ie those assets with contractual cash flows that are SPPI. For the purpose of this disclosure, an asset's carrying amount measured in accordance with IAS 39 is a reasonable approximation of its fair value if the entity is not required to disclose its fair value in accordance with paragraph 29(a) of IFRS 7 *Financial Instruments: Disclosures* (eg short-term trade receivables);

(c) add to the disclosure proposed in paragraph 37A(c) to require an entity to present the information with a sufficient level of detail to enable users of financial statements to understand the nature and the characteristics of the financial assets.

(d) add to the disclosure proposed in paragraph 37A(d) to require that for the financial assets within the scope of that disclosure that do not have low credit risk, in accordance with IFRS 9, at the end of the reporting period, an entity should disclose the fair value and the "gross" carrying amount (ie in the case of amortised cost assets, before adjusting for any impairment allowances) measured in accordance with IAS 39; and

(e) add a disclosure to require an entity to refer to any IFRS 9 information in the financial statements that is not provided in the consolidated financial statements but is publicly available for the relevant reporting period.

Staff recommendations in May 2016

A3. In Agenda Paper 14B *Reassessment of eligibility for the temporary exemption from applying IFRS 9*, staff are recommending:

(a) a modification to the disclosure proposed in the paragraph 37B of the ED—that an entity would be required to disclose the information proposed paragraph 37B in the annual reporting period *subsequent* to when the entity concluded that it is no longer eligible to apply the temporary exemption; and

(b) an addition to the disclosure proposed in the paragraph 37A(b) of the ED—that an entity that becomes eligible for the temporary exemption after the initial date of assessment should disclose:

(i) the reason for the reassessment;

(ii) an explanation of the change in its predominant activities; and

(iii) the date on which the change in corporate structure occurred that made it eligible for the temporary exemption.

The overlay approach

A4. In April 2016, the Board tentatively decided to confirm the ED proposals that an entity that applies the overlay approach is required to disclose sufficient information to enable users of financial statements to understand how the amount of the adjustment is calculated and the effect of the adjustment on the financial statements. In order to achieve this objective, an entity is required to disclose:

(a) the fact that it has applied the overlay approach in the reporting period and the carrying amount and classes of financial assets to which the reclassified amount relates;

(b) its basis for determining assets to which the overlay approach is applied;

(c) an explanation of the amount of the adjustment and the effect on the financial statements of changes in designation of financial assets during the reporting period; and

(d) the effect of the overlay approach on individual line items.