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Project	Amendments to IFRS 17 *Insurance Contracts*		
Paper topic	Transition requirements—Loans that transfer significant insurance risk		

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Purpose

1. In February 2019, the International Accounting Standards Board (Board) tentatively decided to amend the scope of IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* (referred to as ‘proposed amendments’ throughout this paper) to permit an entity to apply either IFRS 17 or IFRS 9 to insurance contracts that provide insurance coverage only for the settlement of the policyholder’s obligation created by the contract (referred to as ‘loans that transfer significant insurance risk’ or ‘loans’ throughout this paper).

2. This paper considers the transition requirements needed as a result of the Board’s tentative decision.

Summary of staff recommendations

3. The staff recommend the Board maintain:

   (a) the transition requirements in IFRS 17 for loans that transfer significant insurance risk, if an entity elects to apply the requirements in IFRS 17 to a portfolio of such loans; and

   (b) the transition requirements in IFRS 9 for loans that transfer significant insurance risk, if an entity:

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(i) elects to apply the requirements in IFRS 9 to a portfolio of such loans; and

(ii) initially applies IFRS 17 and IFRS 9 at the same time.

4. The staff recommend the Board amend the transition requirements in IFRS 9 for loans that transfer significant insurance risk, if an entity:

(a) elects to apply the requirements in IFRS 9 to a portfolio of such loans; and

(b) has applied IFRS 9 before it initially applies IFRS 17.

5. If the Board agrees with the staff recommendation in paragraph 4 of this paper, the staff recommend the Board amend the transition requirements in IFRS 9:

(a) to require an entity to apply the transition requirements in IFRS 9 that are necessary for applying the proposed amendments (see detailed recommendation in paragraph 33 of this paper).

(b) to permit an entity to newly designate, and to require an entity to revoke its previous designations of, a financial liability under the fair value option at the date the entity first applies the proposed amendments, to the extent that a new accounting mismatch is created, or a previous accounting mismatch no longer exists as a result of applying the proposed amendments (see detailed recommendations in paragraph 41 of this paper).

(c) not to require an entity to restate prior periods to reflect the application of the proposed amendments but to permit an entity to restate prior periods under particular conditions (see detailed recommendation in paragraph 47 of this paper).

(d) to exempt an entity from presenting the quantitative information required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (see detailed recommendation in paragraph 52 of this paper).

(f) to require an entity to disclose specific information in addition to the disclosures that any other IFRS Standard would require (see detailed recommendation in paragraph 59 of this paper).

The staff note that these recommendations are similar to the Board's past decisions for specifying transition requirements for (a) previous amendments to IFRS 9 and (b) the redesignation of financial assets when an entity applies IFRS 17 for the first time.

Structure of the paper

6. This paper provides:
   (a) background information about loans that transfer significant insurance risk (paragraphs 8–9 of this paper); and
   (b) staff analysis and recommendations for the following situations:
      (i) an entity elects to apply IFRS 17 to a portfolio of loans that transfer significant insurance risk (paragraphs 10–13 of this paper);
      (ii) an entity elects to apply IFRS 9 to a portfolio of loans that transfer significant insurance risk, considering separately situations in which the entity initially applies IFRS 9 and IFRS 17 at the same time and the entity applies IFRS 9 before it initially applies IFRS 17 (paragraphs 14–27 of this paper); and
      (iii) designing transition requirements for an entity that elects to apply IFRS 9 to a portfolio of loans that transfer significant insurance risk and has applied IFRS 9 before it initially applies IFRS 17 (paragraphs 28–58 of this paper).
7. This paper includes two appendices:
   (a) Appendix A—Requirements for the redesignation of financial assets at the initial application of IFRS 17 (extract from IFRS 17); and
   (b) Appendix B—Transition for *Prepayment Features with Negative Compensation* (Amendments to IFRS 9) (extract from IFRS 9).

Background information about loans that transfer significant insurance risk

8. IFRS 4 *Insurance Contracts* and IFRS 17 apply to insurance contracts including those that provide insurance coverage only for the settlement of the policyholder's obligation created by the contract. Those contracts typically combine a loan with an agreement from the lender to compensate the borrower if a specified uncertain future event adversely affects the borrower (for example, death) by waiving some or all the payments due under the contract (for example, repayment of the loan balance and payment of interest). Paragraphs 15–16 of Agenda Paper 2A *Loans that transfer significant insurance risk* for the February 2019 Board meeting provide further information about those contracts.

9. At its February 2019 meeting, the Board tentatively decided to amend the scope of IFRS 17 and IFRS 9 for those contracts. The proposed amendments would enable entities issuing such contracts to account for those contracts, applying either IFRS 17 or IFRS 9. The choice would be made portfolio by portfolio, using the definition of a portfolio in IFRS 17.

Staff analysis and recommendations

An entity elects to apply IFRS 17 to a portfolio of loans that transfer significant insurance risk

10. If an entity elects to apply IFRS 17 to a portfolio of such loans, it will apply IFRS 17 to groups of insurance contracts within the portfolio of loans. Accordingly, the entity would apply the transition requirements in Appendix C of IFRS 17 to each group of insurance contracts (paragraphs C3–C33 of IFRS 17).

11. Paragraph C3 of IFRS 17 requires an entity to apply IFRS 17 retrospectively to a group of insurance contracts unless impracticable. If impracticable, an entity may choose to either apply the modified retrospective approach (as described in paragraphs C6–C19 of IFRS 17), or the fair value approach (as described in paragraphs C20–C24 of IFRS 17) for that group of insurance contracts.

12. The transition requirements of IFRS 17 were developed considering different types of insurance contracts. The staff are not aware that there are particularly complex

features or implementation difficulties in applying these requirements to loans that transfer significant insurance risk. Therefore, the staff think that the transition requirements in IFRS 17 mentioned in paragraphs 10 and 11 of this paper are sufficient for an entity to apply the proposed amendments.

13. Accordingly, the staff recommend the Board maintain the transition requirements in IFRS 17 without modification for loans that transfer significant insurance risk.

Question 1 for Board members
Do you agree the Board maintain the transition requirements in IFRS 17 for loans that transfer significant insurance risk, if an entity elects to apply the requirements in IFRS 17 to a portfolio of such loans?

An entity elects to apply IFRS 9 to a portfolio of loans that transfer significant insurance risk

Effect of the IFRS 9 temporary exemption

14. Paragraph 20A of IFRS 4 provides insurers that meet the criteria in paragraph 20B of IFRS 4[1] with a temporary exemption that permits, but does not require, those insurers to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement* rather than IFRS 9 for annual periods beginning before 1 January 2021 (referred to as the 'IFRS 9 temporary exemption' throughout this paper). In November 2018, the Board tentatively decided that the fixed expiry date for the IFRS 9 temporary exemption should be amended so that insurers would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2022—ie when insurers apply IFRS 17 for the first time.[2]

[1] Paragraph 20B of IFRS 4 states: 'An insurer may apply the temporary exemption from IFRS 9 if, and only if:
(a) it has not previously applied any version of IFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss in paragraphs 5.7.1(c), 5.7.7–5.7.9, 7.2.14 and B5.7.5–B5.7.20 of IFRS 9; and
(b) its activities are predominantly connected with insurance, as described in paragraph 20D, at its annual reporting date that immediately precedes 1 April 2016, or at a subsequent annual reporting date as specified in paragraph 20G'.

[2] In November 2018, the Board tentatively decided that the mandatory effective date of IFRS 17 should be deferred by one year, so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2022.

15. Accordingly, when an entity first applies IFRS 17, and thus applies its election for a portfolio of loans that transfer significant insurance risk, the entity will either:

    (a) also be applying IFRS 9 for the first time. This will be the case if the entity was eligible for the IFRS 9 temporary exemption and elected to apply it; or

    (b) have already applied IFRS 9. This will be the case if:

        (i) the entity did not meet the criteria for the IFRS 9 temporary exemption and thus could not apply it; or

        (ii) the entity did meet the criteria for the IFRS 9 temporary exemption but elected not to apply it.

16. The staff considered the different situations as described in paragraph 15 of this paper in the analysis below.

An entity initially applies IFRS 17 and IFRS 9 at the same time

17. In the first case, an entity initially applies IFRS 17 and IFRS 9 at the same time, and elects to apply the requirements in IFRS 9 to a portfolio of loans that transfer significant insurance risk. Accordingly, the entity applies the transition requirements in section 7.2 of IFRS 9 (and their application guidance in paragraphs B7.2.1–B7.2.4 of Appendix B of IFRS 9).

18. Paragraph 7.2.1 of IFRS 9 requires an entity to apply IFRS 9 retrospectively except as specified in paragraphs 7.2.4–7.2.26 and 7.2.28 of IFRS 9. Those paragraphs provide transition relief, in particular in relation to the classification and measurement of financial assets. In that respect, the staff note that an entity could apply the transition relief in IFRS 9 to loans that transfer significant insurance risk in relation to:

    (a) amortised cost measurement (and the expected credit loss model). The staff have heard that few entities expect to classify portfolios of loans as subsequently measured at amortised cost.[3] Nonetheless, an entity that would do that would, for example, apply (if the entity meets the conditions specified in those paragraphs) the transition requirements in paragraph 7.2.4 (on the

[3] This is because the staff understand that few loans that transfer significant insurance risk have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding ('SPPI') applying paragraphs 4.1.2(b) and 4.1.2A(b) of IFRS 9.

assessment of a modified time value of money element) or in paragraph 7.2.11 of IFRS 9 (on when it is impracticable to apply the effective interest method).

(b) fair value measurement. For example, paragraph 7.2.15 of IFRS 9 allows but does not require an entity to restate prior periods. Applying this paragraph, an entity may restate prior periods if, and only if, it is possible without the use of hindsight. The staff are aware that:

  (i) there are circumstances in which entities do not currently measure the loans, in their entirety, at fair value; and

  (ii) determining the fair value of those instruments, in their entirety, for prior periods at the date of initial application of IFRS 9, without using hindsight, may present some challenges. Having said that, the staff expect the proposed deferral of the mandatory effective date of IFRS 17 (together with the proposed deferral of the fixed expiry date of the IFRS 9 temporary exemption) to help an entity to determine fair value for prior periods without the use of hindsight.

19. The staff note that the transition requirements in IFRS 9 were developed considering financial instruments with complex features and thus provide an adequate basis for an entity to apply the proposed amendments. The staff are not aware that loans that transfer significant insurance risk would require any additional transition relief.

20. Accordingly, the staff think that the existing transition requirements in IFRS 9 should apply to any loans that transfer significant insurance risk and thus, that the Board should not consider any amendment in this respect.

Question 2 for Board members
Do you agree the Board maintain the transition requirements in IFRS 9 for loans that transfer significant insurance risk if an entity: (a) elects to apply the requirements in IFRS 9 to a portfolio of such loans, and (b) initially applies IFRS 17 and IFRS 9 at the same time?

An entity initially applies IFRS 17 after previously applying IFRS 9

21. In the second case, an entity would have already transitioned to IFRS 9 prior to first applying IFRS 17 and elects to apply the requirements in IFRS 9 to a portfolio of loans that transfer significant insurance risk. This means that the entity would have already initially applied IFRS 9.

22. Consequently, the transition requirements in IFRS 9 would not be applicable to the loans in this case. This is because, applying paragraph 7.2.27 of IFRS 9, the transition requirements in paragraphs 7.2.1–7.2.26 of IFRS 9 are available only once, that is at the relevant date of initial application of IFRS 9—here, this date occurred in the past––it is not the date at which the entity first applies IFRS 17.

23. Paragraph 19(b) of IAS 8 states that when an entity changes an accounting policy upon initial application of a Standard (or of amendments to a Standard) that does not include specific transitional provisions applying to that change, the entity applies the change retrospectively. Consequently, in the absence of specific transition provisions, an entity would apply the new accounting policy—ie would apply IFRS 9—to loans that transfer significant insurance risk retrospectively, without the possibility of applying any transition relief.

24. The staff think that applying IFRS 9 for such loans retrospectively is appropriate. This is consistent with the general requirement that an entity applies IFRS 9 retrospectively when it applies the classification and measurement requirements of the Standard for the first time (see paragraph 18 of this paper).

25. However, the staff note that when the Board developed the transition requirements in IFRS 9, it provided specific requirements to address scenarios when it anticipated that it would be impracticable to apply particular requirements retrospectively. The staff note that those scenarios may equally occur when an entity applies the requirements in IFRS 9 to the loans. Accordingly, the staff think that an entity should be able to apply the transition requirements in IFRS 9 in this case.

26. The staff also note the Board already decided to permit the application of the transition requirements in IFRS 9 in similar circumstances. The staff identified the two following sets of circumstances:

    (a) when an entity applies the requirements in paragraphs C29–C33 of IFRS 17 on the redesignation of financial assets. As explained in paragraph BC395 of the Basis for Conclusions on IFRS 17, those requirements permit an entity that has previously applied IFRS 9 when it first applies IFRS 17, to revisit some aspects of its IFRS 9 financial asset classifications, elections and designations. In those circumstances, as required in paragraph C30 of IFRS 17, an entity applies the resulting changes retrospectively and applies the relevant transition requirements in IFRS 9. For ease of reference, Appendix A to this paper reproduces the requirements in paragraphs C29–C33 of IFRS 17.

    (b) when entities apply *Prepayment Features with Negative Compensation* (Amendments to IFRS 9).[4] For entities that initially apply those amendments after previously applying IFRS 9, the Board decided to allow them to use the transition requirements in IFRS 9 as if they were applying IFRS 9 for the first time. For ease of reference, Appendix B to this paper reproduces the requirements in paragraphs 7.2.29–7.2.34 of IFRS 9 (those paragraphs were added to IFRS 9 as a result of the amendments).

27. Accordingly, the staff recommend the Board amend IFRS 9 to provide transition relief for an entity that

    (a) elects to apply the requirements in IFRS 9 to a portfolio of loans that transfer significant insurance risk, and

    (b) has already applied IFRS 9 before it initially applies IFRS 17.

[4] Those amendments were published in October 2017. As a result of those amendments, particular financial assets with prepayment features that may result in reasonable negative compensation for the early termination of the contract are eligible to be measured at amortised cost or at fair value through other comprehensive income.

Question 3 for Board members
Do you agree the Board amend the transition requirements in IFRS 9 for loans that transfer significant insurance risk if an entity: (a) elects to apply the requirements in IFRS 9 to a portfolio of such loans, and (b) has applied IFRS 9 before it initially applies IFRS 17?

Designing transition requirements for an entity that elects to apply IFRS 9 to a portfolio of loans that transfer significant insurance risk and has applied IFRS 9 before it initially applies IFRS 17

28. Paragraphs 29–59 of this paper discuss how the Board could amend the transition requirements in IFRS 9 for loans that transfer significant insurance risk for any entity that:
    (a) elects to apply the requirements in IFRS 9 to a portfolio of those loans; and
    (b) has already applied IFRS 9 before it initially applies IFRS 17.

29. Accordingly, the Board would consider this discussion only if it agrees with the staff recommendation set out in Question 3 of this paper. This section of the paper considers:
    (a) which transition requirements in IFRS 9 an entity would apply (paragraphs 30–33 of this paper);
    (b) fair value option (paragraphs 34–41 of this paper);
    (c) restatement of comparatives (paragraphs 42–47 of this paper); and
    (d) disclosures (paragraphs 48–59 of this paper).

Which transition requirements in IFRS 9 would an entity apply?

30. The staff considered two approaches for setting transition requirements for the proposed amendments:
    (a) Approach A—The Board requires an entity to apply the relevant transition requirements in IFRS 9—ie the entity identifies the transition requirements in IFRS 9 that are necessary for applying the proposed amendments; and

(b) Approach B—The Board identifies the specific transition requirements in IFRS 9 that would apply to the proposed amendments and requires an entity to apply them.

31. Irrespective of the approach retained, the staff considered in this section of the paper the transition requirements IFRS 9 except those relating to the fair value option and the restatement of comparatives. The staff discussed whether, and if so how, those transition requirements should be adapted for the fair value option and the restatement of comparatives in paragraphs 34–41 of this paper and in paragraphs 42–47 of this paper respectively.

32. In the staff view, Approach A is the most appropriate way forward. This is because:

(a) entities are well-positioned to assess which transition requirements could apply, having considered all facts and circumstances pertaining to the loan arrangements. In this regard, the staff think that Approach B would require the Board to contemplate all possible fact patterns so as to identify the applicable transition requirements. Accordingly, Approach B would result in extensive standard-setting work and even so risks not capturing all relevant fact patterns.

(b) entities have applied the transition requirements of IFRS 9 when they transitioned to IFRS 9. Accordingly, entities are familiar with those requirements and are likely to appropriately identify those that are relevant for the purpose of applying the proposed amendments.

(c) the risks that entities apply inappropriate transition requirements in IFRS 9 are limited.

(d) the Board chose Approach A when deliberating on:

(i) the requirements in paragraphs C29–C33 of IFRS 17 on the redesignation of financial assets—the Board's decision in this respect is reflected in paragraph C30 of IFRS 17; and

(ii) *Prepayment Features with Negative Compensation* to (Amendments to IFRS 9)—the Board's decision in this respect is reflected in paragraph 7.2.31 of IFRS 9.

33. Accordingly, the staff recommend the Board require an entity to apply the transition requirements in section 7.2 of IFRS 9 that are necessary for applying the proposed amendments.

Question 4 for Board members
Do you agree the Board amend IFRS 9 to require an entity to apply, in the circumstances described in paragraph 28 of this paper, the transition requirements in IFRS 9 necessary for applying the proposed amendments?

Fair value option

34. In the staff view, any standard-setting should contemplate specific transition requirements related to the fair value option—ie the option to designate a financial asset or a financial liability at fair value through profit or loss (FVPL). This is because the staff expect an entity's decision to apply IFRS 9 to a portfolio of loans that transfer significant insurance risk to change, either partially or in full, the measurement basis of the loans[5]. This may create new 'accounting mismatches' that would justify an entity applying the fair value option to the financial assets or the financial liabilities affected by those mismatches. Conversely, the change in measurement basis might eliminate existing mismatches and thus justify requiring an entity to revoke the fair value option for the financial assets or financial liabilities that are no longer subject to a mismatch.

Fair value option for financial assets

35. As discussed in paragraph 26(a) of this paper, paragraphs C29–C33 of IFRS 17 permit an entity to revisit some aspects of the IFRS 9 classification and measurement requirements for its financial assets when the entity applies IFRS 17 for the first time. Paragraph C29 of IFRS 17 includes requirements in relation to the fair value option.

[5] Paragraph 19(c) of *Agenda Paper 2A Loans that transfer significant insurance risk* for the February 2019 Board meeting explains that, applying IFRS 4, many entities regard loans that transfer significant insurance risk as containing (i) a deposit component (a loan) and (ii) an insurance component. Paragraph 10 of IFRS 4 requires, or permits, an entity to 'unbundle' the deposit component and to account for such component applying the requirements in IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9. Applying the proposed amendments, an entity that elects to account for loans that transfer significant insurance risk applying IFRS 9 would have to apply the requirements in IFRS 9 to those loans, in their entirety (and no longer to a part of those loans if the entity had 'unbundled' the deposit component applying IFRS 4).

This paragraph states that an entity that had applied IFRS 9 to annual reporting periods before the initial application of IFRS 17:

(a) shall revoke its previous designation of a financial asset as measured at FVPL if the condition in paragraph 4.1.5 of IFRS 9[6] is no longer met because of the application of IFRS 17; and

(b) may designate a financial asset as measured at FVPL if the condition in paragraph 4.1.5 of IFRS 9 is met.

36. Accordingly, an entity may decide, when it first applies IFRS 17, to redesignate the classification and measurement of its financial assets applying the requirements in paragraph C29 of IFRS 17. This means that an entity, in the circumstances described in paragraph 28 of this paper, may decide to apply the requirements in paragraph C29 of IFRS 17 to address any accounting mismatch that would result from (or would no longer exists as a result of) the application of the proposed amendments. In other words, an entity:

(a) would have to revoke the fair value option for a financial asset if the condition in paragraph 4.1.5 of IFRS 9 is no longer satisfied as a result of the application of the proposed amendments; and

(b) could apply the fair value option to a financial asset if that designation would not have previously satisfied the condition in paragraph 4.1.5 of IFRS 9 but that condition would be satisfied as a result of the application of the proposed amendments.

37. In the staff view, the existing requirements in paragraph C29 of IFRS 17 provide an adequate and sufficient basis for an entity to address any matter related to the application of the fair value option to <u>financial assets</u>. Accordingly, the staff recommend the Board not consider any further requirement in that respect.

[6] Paragraph 4.1.5 of IFRS 9 states: 'Despite paragraphs 4.1.1–4.1.4, an entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases (see paragraphs B4.1.29–B4.1.32)'.

Fair value option for financial liabilities

38. The staff note that paragraph C29 of IFRS 17 does not include any requirement in relation to financial liabilities. In the staff view, this is because the requirements in paragraph C29 of IFRS 17 were designed to address the accounting mismatches potentially existing between (a) insurance contracts that, applying the requirements in IFRS 17, are expected to be liabilities, and (b) the financial assets that an entity considers to be related to those insurance contracts.

39. The staff note that, the loans that transfer significant insurance risk would be financial assets if an entity elects to apply the requirements in IFRS 9 to a portfolio of such loans. Consequently, the staff think there might accounting mismatches between (a) those loans and (b) the financial liabilities that an entity might consider to be related to those loans. Accordingly, the staff think that an entity should be permitted to newly designate, and should be required to revoke its previous designation of, a financial liability under the fair value option, at the date the entity first applies the proposed amendments, to the extent that a new accounting mismatch is created, or a previous accounting mismatch no longer exits as a result of applying the proposed amendments.

40. The staff note such a requirement would be similar to, and consistent with:

    (a) paragraphs 7.2.28(c) and (d) of IFRS 9 which set out the transition requirements related to the fair value option when an entity applies the limited amendments to IFRS 9 (issued in 2014) to the classification and measurement requirements for financial assets after previously applying an earlier version of IFRS 9;[7] and

    (b) the transition requirements in paragraph 7.2.32 of IFRS 9 that the Board set out for *Prepayment Features with Negative Compensation* (Amendments to IFRS 9).

[7] Paragraph 7.2.28 of IFRS 9 states: 'An entity that applied IFRS 9 (2009), IFRS 9 (2010) or IFRS 9 (2013) and subsequently applies this Standard:
(a) shall revoke its previous designation of a financial asset as measured at fair value through profit or loss if that designation was previously made in accordance with the condition in paragraph 4.1.5 but that condition is no longer satisfied as a result of the application of this Standard;
(b) may designate a financial asset as measured at fair value through profit or loss if that designation would not have previously satisfied the condition in paragraph 4.1.5 but that condition is now satisfied as a result of the application of this Standard;

41. Accordingly, the staff recommend the Board amend the requirements in IFRS 9 to:

(a) require an entity to revoke its previous designation of a financial liability as measured at FVPL if that designation was previously made in accordance with the condition in paragraph 4.2.2(a) of IFRS 9[8] but that condition is no longer satisfied as a result of the application of the proposed amendments; and

(b) permit an entity to designate a financial liability as measured at FVPL if that designation would not have previously satisfied the condition in paragraph 4.2.2(a) of IFRS 9 but the condition would be satisfied as a result of the application of the proposed amendments.

Question 5 for Board members
Do you agree the Board amend, in the circumstances described in paragraph 28 of this paper, the transition requirements in IFRS 9 to: (a) require an entity to revoke its previous designation of a financial liability as measured at FVPL if that designation was previously made in accordance with the condition in paragraph 4.2.2(a) of IFRS 9 but that condition is no longer satisfied as a result of the application of the proposed amendments; and (b) permit an entity to designate a financial liability as measured at FVPL if that designation would not have previously satisfied the condition in paragraph 4.2.2(a) of IFRS 9 but the condition would be satisfied as a result of the application of the proposed amendments?

Restatement of comparatives

42. As discussed in paragraph 18 of this paper, an entity applies IFRS 9 retrospectively, except as specified in Section 7.2 of IFRS 9. Despite this general requirement, paragraph 7.2.15 of IFRS 9 states that an entity that adopts the classification and

(c) shall revoke its previous designation of a financial liability as measured at fair value through profit or loss if that designation was previously made in accordance with the condition in paragraph 4.2.2(a) but that condition is no longer satisfied as a result of the application of this Standard; and
(d) may designate a financial liability as measured at fair value through profit or loss if that designation would not have previously satisfied the condition in paragraph 4.2.2(a) but that condition is now satisfied as a result of the application of this Standard.'

[8] Paragraph 4.2.2 of IFRS 9 states: 'An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when permitted by paragraph 4.3.5, or when doing so results in more relevant information, because either:
(a) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases (see paragraphs B4.1.29–B4.1.32)…'

measurement requirements of IFRS 9 need not restate prior periods. Paragraph 7.2.15 of IFRS 9 also states that:

(a) an entity may restate prior periods if, and only if, it is possible without the use of hindsight; and

(b) if an entity restates prior periods, the restated financial statements must reflect all of the requirements in IFRS 9.

43. As discussed in paragraph 18(b) of this paper, the staff think that the requirements in paragraph 7.2.15 of IFRS 9 would be particularly helpful for entities that measure loans that that transfer significant insurance risk at fair value as a result of the first-time application of the proposed amendments. Accordingly, the staff think that any proposed amendments should include similar requirements.

44. The staff also note that having requirements similar to those in paragraph 7.2.15 of IFRS 9 in any proposed amendment would be consistent with the Board's past decisions about how an entity applies the requirements in:

(a) paragraphs C29–C33 of IFRS 17 on the redesignation of financial assets when an entity applies IFRS 17 for the first time; and

(b) the amendments *Prepayment Features with Negative Compensation* to IFRS 9.

45. In the circumstances described in paragraph 44 of this paper, the Board:[9]

(a) did not require an entity to restate prior periods;

(b) permitted an entity to restate prior periods only if it is possible without the use of hindsight; and

(c) required that:

(i) if an entity restates prior periods, the restated financial statements reflect all the requirements of IFRS 9 (paragraph 7.2.33 of IFRS 9) or all the requirements of IFRS 9 for the affected financial assets (paragraph C31 of IFRS 17); and

(ii) if an entity does not restate prior periods, the entity recognises, in the opening retained earnings (or other component of equity, as appropriate)

[9] The related provisions are included in paragraph C31 of IFRS 17 and paragraph 7.2.33 of IFRS 9.

at the date of initial application of the transition requirements any difference between the previous carrying amount and the carrying amount at the date of initial application.

46. As a final note, the staff observe that an entity that has already applied IFRS 9 would apply the proposed amendments at the same time it applies the requirements in paragraphs C29–C33 of IFRS 17. Because the requirements on the redesignation of financial assets do not require the restatement of prior periods, the staff think that requiring restatement for the proposed amendments may create an inconsistent approach and, thus, might not provide relevant information.

47. Accordingly, the staff recommend, consistent with the general approach in IFRS 9, the Board not require an entity to restate prior periods to reflect the application of the proposed amendments, and instead, permit an entity to restate prior periods if, and only if:

    (a) it is possible without the use of hindsight; and

    (b) the restated financial statements reflect all requirements in IFRS 9 for the affected financial instruments.

Question 6 for Board members

Do you agree the Board amend, in the circumstances described in paragraph 28 of this paper, the transition requirements in IFRS 9 to permit an entity to restate prior periods if, and only if:

(a) it is possible without the use of hindsight; and

(b) the restated financial statements reflect all the requirements in IFRS 9 for the affected financial instruments?

Disclosures

48. When applying the proposed amendments for the first time, an entity would apply the disclosure requirements in paragraph 28 of IAS 8. Paragraph 28 of IAS 8 states:

> When initial application of an IFRS has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall disclose:
>
> (a) the title of the IFRS;

(b) when applicable, that the change in accounting policy is made in accordance with its transitional provisions;

(c) the nature of the change in accounting policy;

(d) when applicable, a description of the transitional provisions;

(e) when applicable, the transitional provisions that might have an effect on future periods;

(f) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment:

(i) for each financial statement line item affected; and

(ii) if IAS 33 *Earnings per Share* applies to the entity, for basic and diluted earnings per share;

(g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and

(h) if retrospective application required by paragraph 19(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

49. This section of the paper considers whether the Board should provide relief from some of the requirements in paragraph 28 of IAS 8 and contemplate additional disclosures requirements.

Relief from some of the requirements in IAS 8

50. The staff note that an entity is not required to provide the information required in paragraph 28(f) of IAS 8 (or some similar information) when it applies IFRS 9 and IFRS 17 for the first time. This is because:

(a) paragraph C3 of IFRS 17 does not require an entity to present the quantitative information required by paragraph 28(f) of IAS 8 when it applies IFRS 17 for the first time; and

(b) paragraph 42Q of IFRS 7 *Financial Instruments: Disclosures* does not require an entity to disclose, in the reporting period that includes the date of initial application of IFRS 9, the line item amounts that would have been reported in

accordance with the classification and measurement requirements of IFRS 9 for prior periods, and IAS 39 for the current period.

51. In addition, the staff note that an entity would apply the proposed amendments at the same time it applies the requirements in paragraphs C29–C33 of IFRS 17. Those requirements on the redesignation of financial assets are subject to the relief in paragraph C3 of IFRS 17—that is, an entity is not required to present the quantitative information required by paragraph 28(f) of IAS 8 when it revisits some aspects of the IFRS 9 classification and measurement requirements for its financial assets at the first-time application of IFRS 17. Accordingly, requiring an entity to disclose the information in paragraph 28(f) of IAS 8 for the proposed amendments may create an inconsistent approach.

52. In the light of the analysis set out in paragraphs 50–51 of this paper, the staff recommend the Board not require an entity to present the quantitative information required by paragraph 28(f) of IAS 8 when the entity applies the proposed amendments.

Additional disclosure requirements to those included in IAS 8

53. In the staff view, an entity should also disclose information for users of financial statements about:

(a) the changes in the classification and measurement of the loans that transfer significant insurance risk as a result of applying the proposed amendments. This is because users of financial statements need to understand how an entity classifies and measures the loans applying IFRS 9 to the loans in their entirety, and how this has changed, in particular when the entity previously applied IFRS 9 to a part of those loans or when the entity previously applied the requirements in IFRS 4 to the loans in their entirety. This implies an entity would disclose for the loans:

(i) their previous classification, including measurement category when applicable, and carrying amount immediately before applying the proposed amendments; and

(ii) their new measurement category and carrying amount determined in accordance with IFRS 9 after applying the amendments.

(b) how the proposed amendments have affected an entity's designations of financial assets and liabilities under the fair value option. This implies an entity would disclose:

(i) the carrying amount of any financial assets and liabilities in the statement of financial position that were previously designated at FVPL but are no longer so designated as a result of the proposed amendments; and

(ii) the reasons for any designation or de-designation of financial assets or financial liabilities as measured at FVPL.

54. The staff note that the information in such disclosures would be consistent with the requirements in:

(a) paragraphs 42I–42J of IFRS 7 which are required when an entity initially applies IFRS 9.[10,11];

(b) paragraphs C32(c) and C33(b) of IFRS 17 on the redesignation of financial assets when an entity applies IFRS 17 for the first time; and

(c) paragraph 7.2.34 of IFRS 9 on *Prepayment Features with Negative Compensation*.

55. Accordingly, the staff recommend the Board develop requirements that would result in an entity providing the information described in paragraph 53 of this paper. To formulate their final recommendation, the staff considered whether IFRS Standards,

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[10] Paragraph 42I of IFRS 7 states: 'In the reporting period that includes the date of initial application of IFRS 9, the entity shall disclose the following information for each class of financial assets and financial liabilities as at the date of initial application:

(a) the original measurement category and carrying amount determined in accordance with IAS 39 or in accordance with a previous version of IFRS 9 (if the entity's chosen approach to applying IFRS 9 involves more than one date of initial application for different requirements);

(b) the new measurement category and carrying amount determined in accordance with IFRS 9;

(c) the amount of any financial assets and financial liabilities in the statement of financial position that were previously designated as measured at fair value through profit or loss but are no longer so designated, distinguishing between those that IFRS 9 requires an entity to reclassify and those that an entity elects to reclassify at the date of initial application…'

[11] Paragraph 42J of IFRS 9 states: 'In the reporting period that includes the date of initial application of IFRS 9, an entity shall disclose qualitative information to enable users to understand:

(a) how it applied the classification requirements in IFRS 9 to those financial assets whose classification has changed as a result of applying IFRS 9.

(b) the reasons for any designation or de-designation of financial assets or financial liabilities as measured at fair value through profit or loss at the date of initial application…'

other than IAS 8 and IFRS 9, would already require an entity to provide some of this information.

56. In that regard, the staff note that paragraphs C29–C33 of IFRS 17 already require an entity to provide the information in paragraph 53(b) of this paper for financial assets––that is, information on designations or de-designations of financial assets as measured at FVPL. In particular:

    (a) paragraph C32(c) of IFRS 17 requires an entity that applies the requirements in paragraph C29 of IFRS 17 to disclose, in the annual period during which the entity applies IFRS 17 for the first time, the carrying amount of financial assets in the statement of financial position that were previously designated as measured at FVPL applying paragraph 4.1.5 of IFRS 9 that are no longer so designated.

    (b) paragraph C33(b) of IFRS 17 requires an entity that applies the requirements in paragraph C29 of IFRS 17 to disclose, in the annual period during which the entity applies IFRS 17 for the first time, qualitative information that would enable users of financial statements to understand the reasons for any designation or de-designation of financial assets as measured at FVPL applying paragraph 4.1.5 of IFRS 9.

57. As discussed in paragraphs 36–37 of this paper, an entity could use the requirements in paragraph C29 of IFRS 17 to address any matter that relates to the application of the fair value option to financial assets arising from the application of the proposed amendments. Consistent with this analysis, we think that the requirements in paragraphs C32(c) and C33(b) of IFRS 17 provide appropriate disclosures about how the proposed amendments would affect an entity's option to designate (or would lead an entity to revoke its designation of) financial assets at FVPL. Accordingly, the staff think the Board should not consider developing additional requirements for financial assets in this respect.

58. The staff have not identified any requirements, other than those described in paragraphs 56–57 of this paper, that would require an entity to provide the disclosures described in paragraph 53 of this paper.

59. Accordingly, the staff recommend the Board require, in addition to any disclosures required by other IFRS Standards, an entity to provide the following disclosures:

(a) the previous classification, including measurement category when applicable, and carrying amount of the loans immediately before applying the proposed amendments;

(b) the new measurement category and carrying amount of the loans determined in accordance with IFRS 9 after applying the proposed amendments;

(c) the carrying amount of any financial liabilities at the date of the initial application of the proposed amendments in the statement of financial position that were previously designated at FVPL but are no longer so designated as a result of the proposed amendments; and

(d) the reasons for any designation or de-designation of financial liabilities as measured at FVPL.

Question 7 for Board members
Do you agree the Board amend, in the circumstances described in paragraph 28 of this paper, the transition requirements in IFRS 9 in order to: (a) exempt an entity from presenting the quantitative information required by paragraph 28(f) of IAS 8; and (b) require an entity to provide, in addition to any disclosures required by other IFRS Standards, the following disclosures: (i) the previous classification, including measurement category when applicable, and carrying amount of the loans immediately before applying the proposed amendments; (ii) the new measurement category and carrying amount of the loans determined in accordance with IFRS 9 after applying the proposed amendments; (iii) the carrying amount of any financial liabilities at the date of the initial application of the proposed amendments in the statement of financial position that were previously designated at FVPL but are no longer so designated as a result of the proposed amendments; and (iv) the reasons for any designation or de-designation of financial liabilities as measured at FVPL.

Appendix A—Requirements for the redesignation of financial assets at the initial application of IFRS 17 (extract from IFRS 17)

Appendix C

Effective date and transition

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Redesignation of financial assets

C29 At the date of initial application of IFRS 17, an entity that had applied IFRS 9 to annual reporting periods before the initial application of IFRS 17:

(a) may reassess whether an eligible financial asset meets the condition in paragraph 4.1.2(a) or paragraph 4.1.2A(a) of IFRS 9. A financial asset is eligible only if the financial asset is not held in respect of an activity that is unconnected with contracts within the scope of IFRS 17. Examples of financial assets that would not be eligible for reassessment are financial assets held in respect of banking activities or financial assets held in funds relating to investment contracts that are outside the scope of IFRS 17.

(b) shall revoke its previous designation of a financial asset as measured at fair value through profit or loss if the condition in paragraph 4.1.5 of IFRS 9 is no longer met because of the application of IFRS 17.

(c) may designate a financial asset as measured at fair value through profit or loss if the condition in paragraph 4.1.5 of IFRS 9 is met.

(d) may designate an investment in an equity instrument as at fair value through other comprehensive income applying paragraph 5.7.5 of IFRS 9.

(e) may revoke its previous designation of an investment in an equity instrument as at fair value through other comprehensive income applying paragraph 5.7.5 of IFRS 9.

C30 An entity shall apply paragraph C29 on the basis of the facts and circumstances that exist at the date of initial application of IFRS 17. An entity shall apply those designations and classifications retrospectively. In doing so, the entity shall apply the relevant transition requirements in IFRS 9. The date of initial application for that purpose shall be deemed to be the date of initial application of IFRS 17.

C31 An entity that applies paragraph C29 is not required to restate prior periods to reflect such changes in designations or classifications. The entity may restate prior periods only if it is possible without the use of hindsight. If an entity restates prior periods, the restated financial statements must reflect all the requirements of IFRS 9 for those affected financial assets. If an entity does not restate prior periods, the entity shall recognise, in the opening retained earnings (or other component of equity, as appropriate) at the date of initial application, any difference between:

(a) the previous carrying amount of those financial assets; and

(b) the carrying amount of those financial assets at the date of initial application.

C32 When an entity applies paragraph C29, it shall disclose in that annual reporting period for those financial assets by class:

(a) if paragraph C29(a) applies—its basis for determining eligible financial assets;

(b) if any of paragraphs C29(a)–C29(e) apply:

(i) the measurement category and carrying amount of the affected financial assets determined immediately before the date of initial application of IFRS 17; and

(ii) the new measurement category and carrying amount of the affected financial assets determined after applying paragraph C29.

(c) if paragraph C29(b) applies—the carrying amount of financial assets in the statement of financial position that were previously designated as measured at fair value through profit or loss applying paragraph 4.1.5 of IFRS 9 that are no longer so designated.

C33 When an entity applies paragraph C29, the entity shall disclose in that annual reporting period qualitative information that would enable users of financial statements to understand:

(a) how it applied paragraph C29 to financial assets the classification of which has changed on initially applying IFRS 17;

(b) the reasons for any designation or de-designation of financial assets as measured at fair value through profit or loss applying paragraph 4.1.5 of IFRS 9; and

(c) why the entity came to any different conclusions in the new assessment applying paragraphs 4.1.2(a) or 4.1.2A(a) of IFRS 9.

Appendix B—Transition for *Prepayment Features with Negative Compensation* (Amendments to IFRS 9) (extract from IFRS 9)

7.2 Transition

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Transition for *Prepayment Features with Negative Compensation*

7.2.29 An entity shall apply *Prepayment Features with Negative Compensation* (Amendments to IFRS 9) retrospectively in accordance with IAS 8, except as specified in paragraphs 7.2.30–7.2.34.

7.2.30 An entity that first applies these amendments at the same time it first applies this Standard shall apply paragraphs 7.2.1–7.2.28 instead of paragraphs 7.2.31–7.2.34.

7.2.31 An entity that first applies these amendments after it first applies this Standard shall apply paragraphs 7.2.32–7.2.34. The entity shall also apply the other transition requirements in this Standard necessary for applying these amendments. For that purpose, references to the date of initial application shall be read as referring to the beginning of the reporting period in which an entity first applies these amendments (date of initial application of these amendments).

7.2.32 With regard to designating a financial asset or financial liability as measured at fair value through profit or loss, an entity:

(a) shall revoke its previous designation of a financial asset as measured at fair value through profit or loss if that designation was previously made in accordance with the condition in paragraph 4.1.5 but that condition is no longer satisfied as a result of the application of these amendments;

(b) may designate a financial asset as measured at fair value through profit or loss if that designation would not have previously satisfied the condition in paragraph 4.1.5 but that condition is now satisfied as a result of the application of these amendments;

(c) shall revoke its previous designation of a financial liability as measured at fair value through profit or loss if that designation was previously made in accordance with the condition in paragraph 4.2.2(a) but that condition is no longer satisfied as a result of the application of these amendments; and

(d) may designate a financial liability as measured at fair value through profit or loss if that designation would not have previously satisfied the condition in paragraph 4.2.2(a) but that condition is now satisfied as a result of the application of these amendments.

Such a designation and revocation shall be made on the basis of the facts and circumstances that exist at the date of initial application of these amendments. That classification shall be applied retrospectively.

7.2.33 An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight and the restated financial statements reflect all the requirements in this Standard. If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.

7.2.34 In the reporting period that includes the date of initial application of these amendments, the entity shall disclose the following information as at that date of initial application for each class of financial assets and financial liabilities that were affected by these amendments:

(a) the previous measurement category and carrying amount determined immediately before applying these amendments;

(b) the new measurement category and carrying amount determined after applying these amendments;

(c) the carrying amount of any financial assets and financial liabilities in the statement of financial position that were previously designated as measured at fair value through profit or loss but are no longer so designated; and

(d) the reasons for any designation or de-designation of financial assets or financial liabilities as measured at fair value through profit or loss.