STAFF PAPER

May 2015

REG IASB Meeting

Project	Insurance Contracts		
Paper topic	Update on the interaction between IFRS 9 *Financial Instruments* and Insurance Contracts project		
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Purpose of the paper

1. The purpose of the paper is to provide an update to the IASB on the interaction between IFRS 9 *Financial Instruments* and the Insurance Contracts project. This paper is for information only and there are no questions for the IASB.

Background and update

2. At the January 2015 meeting, the IASB noted that the effective date of the new insurance contracts Standard could no longer be aligned with the effective date of IFRS 9 because:
   (a) the IASB had exposed its intention to allow approximately three years between the date of publishing the new insurance contracts Standard and the date when that Standard becomes effective; and
   (b) the effective date of IFRS 9 is 1 January 2018.
3. Accordingly, the IASB tentatively decided to:
   (a) confirm the transition reliefs proposed in the 2013 Exposure Draft *Insurance Contracts*—that will enable entities to align classification elections under IFRS 9 with how insurance contracts liabilities are

accounted for both when IFRS 9 is initially applied and when the new insurance contracts Standard is initially applied at a later date; and

(b) consider providing further transition relief to permit or require an entity to reassess the business model for managing financial assets when the new insurance contracts Standard is initially applied—that will enable entities to fully evaluate the effects of applying that Standard in assessing their business models as well as evaluate other facts and circumstances that exist at the time of transition to that Standard.

4. In discussing those transition reliefs, the IASB noted that deferring the effective date of IFRS 9 would neither be appropriate nor feasible. That position is consistent with both the feedback on the 2013 Exposure Draft *Insurance Contracts* and the rationale for setting the effective date of IFRS 9 for 1 January 2018. This is because:

(a) IFRS 9 is a significant improvement in accounting for financial instruments that is relevant for all entities and it is important that those changes (particularly in relation to accounting for impairment) be introduced on a timely basis for all entities that have financial instruments;

(b) deferring IFRS 9 for some, but not all, reporting entities (as had been suggested by some stakeholders) would create confusion and reduce comparability and require arbitrary 'bright lines' for entities that engage in multiple types of activities;

(c) deferring IFRS 9 for parts of a reporting entity (as had been suggested by some stakeholders) would create complex accounting consequences which would require careful analysis and extensive due process and would take a considerable amount of time to complete; and

(d) other alternatives to address concerns that arise due to different effective dates of IFRS 9 and the new insurance contracts Standard have been and could be further explored.

5. At the March 2015 meeting of the Accounting Standards Advisory Forum (ASAF), a representative of the European Financial Reporting Advisory Group (EFRAG) requested the IASB to reconsider its position of not deferring IFRS 9 for entities that

issue insurance contracts. The representative stated EFRAG's view that implementation of IFRS 9 without simultaneous implementation of the new insurance contracts Standard could create disruption for users of financial statements of entities that issue insurance contracts, and make understanding the financial position and performance of insurance businesses more difficult without commensurate benefit. That request was supported by some of the European ASAF members. Non-European ASAF members did not raise similar concerns. They indicated that any further transition reliefs for entities that issue insurance contracts should be optional rather than mandatory so as not to penalise entities that had already begun implementing IFRS 9.

6. On 4 May 2015, EFRAG issued a draft endorsement advice (DEA) for the use of IFRS 9 in the European Union (EU). In the DEA, EFRAG concludes that IFRS 9 satisfies the endorsement criteria and is conductive to the European public good. Accordingly, EFRAG recommends IFRS 9 for endorsement without further delay.

7. In the DEA, EFRAG also expresses a view that the mismatch in timing of the new insurance contacts Standard and IFRS 9 may create disruptions in the financial reporting of insurance activities during the period until the new insurance contracts Standard is applied, which will make financial reporting less understandable for users of financial statements while increasing costs for preparers. Consequently, in the DEA EFRAG advises that the European Commission ask the IASB to defer the effective date of IFRS 9 for insurance businesses and align it with the effective date of the new insurance contracts Standard.

8. However, the DEA emphasises that:

   (a) in EFRAG's view, IFRS 9 should not be stopped from being endorsed, and it should be applicable without unnecessary delay to all activities other than insurance businesses;

   (b) EFRAG preliminary position on the effective date of IFRS 9 for insurance businesses took into account a first set of quantitative data received from the European insurance industry; and

(c) a more in-depth understanding of the magnitude of the potential effects of IFRS 9 being implemented in advance of the new insurance contracts Standard is critical to the finalisation of the endorsement advice to the European Commission and EFRAG therefore calls on constituents to provide more evidence and insights on this issue.

9. The DEA is open for comment until 30 June 2015. The full text of the DEA can be found at http://www.efrag.org/files/IFRS%209%20endorsement/IFRS_9_DEA_-_May_4_2015_-_final.pdf

10. The staff note that in the discussions to date those requesting a deferral of IFRS 9 have suggested an approach whereby IAS 39 *Financial Instruments: Recognition and Measurement* would continue to apply to the 'insurance business' within a reporting entity, whereas IFRS 9 would otherwise apply. The resulting financial statements could thus combine IAS 39 and IFRS 9 accounting for financial instruments. This gives rise to the question of how to account for transfers of financial assets within a reporting entity that would prima facie result in a change in how a financial asset is classified and measured and/or the impairment model that would apply. This issue is not currently addressed in IFRS as an entity would apply either IAS 39 or IFRS 9 and a change to IFRS 9 would be undertaken by an entity as a whole using the transition requirements in IFRS 9 (or in accordance in IFRS 1 *First-time Adoption of International Financial Reporting Standards* for first-time adopters of IFRS).

11. The staff will continue to monitor the developments and provide updates to the IASB as necessary, including updates on the further insights and evidence of the potential effects of IFRS 9 being implemented in advance of the new insurance contracts Standard as called for by the EFRAG.