STAFF PAPER

October 2015

IASB Meeting

Project	**Different effective dates of IFRS 9 and the new insurance contracts Standard**
Paper topic	Cover note

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Introduction

1. This cover note:
   (a) provides background for the papers for this meeting in paragraphs 2-8;
   (b) introduces the papers for this meeting in paragraph 9.

Background

The issue addressed by the ED: Different effective dates of IFRS 9 and the new insurance contracts Standard

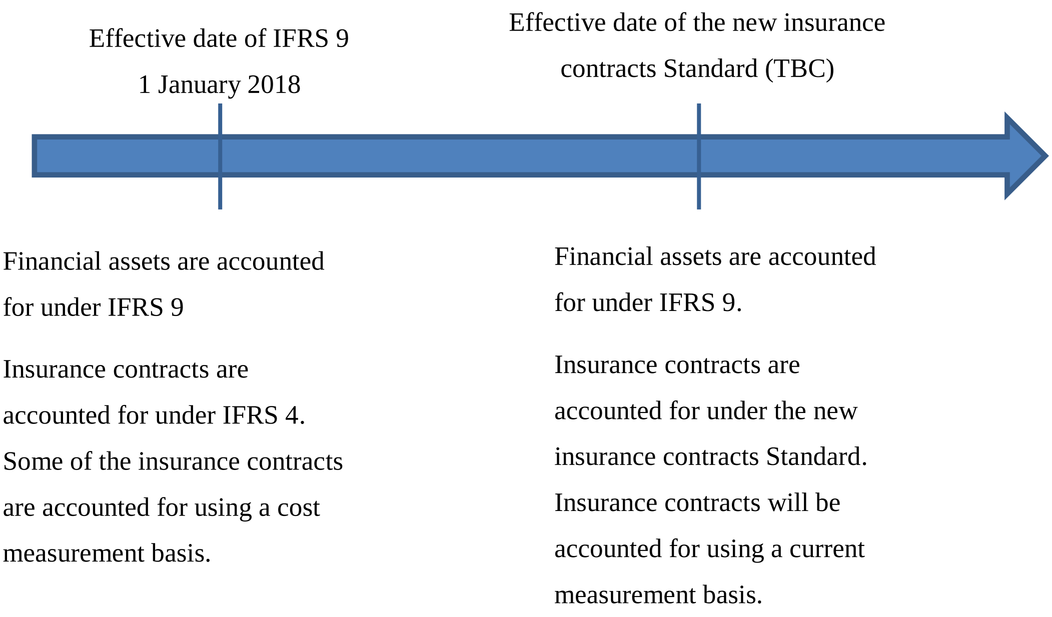
2. The IASB has a project to replace IFRS 4 with requirements for measuring insurance contracts using a current measurement basis. IFRS 9 *Financial Instruments* (IFRS 9) sets out the requirements for measuring financial instruments and the majority of assets held by an insurer are likely to be financial assets.

3. The effective date for IFRS 9 is for annual periods beginning on or after 1 January 2018. This means that the earliest possible effective date of the new insurance contracts Standard can no longer be aligned with the effective date of IFRS 9, because the IASB:

(a) expects to finalise the new insurance contracts Standard no sooner than late 2016, and

(b) has tentatively decided to allow a period of approximately three years after the issuance of the new insurance contracts Standard for entities to implement that Standard.

4. This is illustrated in the chart below:



5. Some interested parties are concerned that the different effective dates of IFRS 9 and the new insurance contracts Standard would result in the following:

(a) additional temporary volatility in profit or loss, which could confuse users of financial statements. Additional temporary volatility could arise in profit or loss if an entity classifies more financial assets at fair value through profit or loss (FVPL) under IFRS 9 than it did under IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) and when the entity continues to measure the insurance liability using a cost measurement basis in accordance with IFRS 4 *Insurance Contracts* (IFRS 4);

(b) difficulty for some entities in applying the classification and measurement requirements in IFRS 9 before the effects of the new insurance contracts Standard can be fully evaluated. In particular, some state that the classification designations and assessments made on initial application of IFRS 9 might not be the same as those that they would have made if they had initially applied the new insurance contracts Standard at the same time; and

(c) additional cost and effort for both preparers and users of financial statements as a result of two consecutive sets of major accounting changes in a short period of time.

6. Those interested parties, in particular insurers and their representative bodies, have suggested that the IASB should permit insurers to delay application of IFRS 9 (and continue to apply IAS 39) and align the effective date of IFRS 9 for insurers with the effective date of the new insurance contracts Standard.

7. In contrast, the staff note that many users of financial statements in the extensive outreach conducted by IASB members and staff agreed that ideally they would prefer the effective dates to be aligned.[1] However, many of those users did not think that different effective dates of IFRS 9 and the new insurance contracts Standard justified any delay in the application of IFRS 9. Furthermore, some interested parties other than users are concerned that any measures the IASB might take to address the concerns in paragraph 5 could create:

(a) disruption for entities that have already started implementing, or have implemented, IFRS 9;

(b) delay in the application of the improved accounting for financial instruments under IFRS 9 for entities that prefer to apply IFRS 9 from its effective date; and

(c) additional operational burdens.

[1] Agenda Paper 14A of the IASB's September 2015 meeting describes that outreach and summarises the feedback received, available at: http://www.ifrs.org/Meetings/MeetingDocs/IASB/2015/September/AP14A-IFRS%209%20and%20IFRS%204.pdf.

IASB's response

8. At the IASB's September 2015 meeting, the IASB:

   (a) completed the deliberations on the package of proposed temporary measures to address the additional temporary accounting consequences that might arise from applying the new financial instruments Standard, IFRS 9, before the new insurance contracts Standard comes into effect. The package of proposed temporary measures, if confirmed, would amend IFRS 4:

      (i) to permit a reporting entity whose activities are predominantly insurance a temporary exemption from applying IFRS 9 until 2021 ('the Deferral Approach'); and

      (ii) to give entities issuing insurance contracts that implement IFRS 9 the option to remove from profit or loss some of the accounting mismatches and temporary volatility that could occur before the new insurance contracts Standard is implemented ('the Overlay Approach').

   Further details of both approaches are outlined in Appendix A of Agenda Paper 14A for this meeting.

   (b) reviewed the due process steps that the IASB has taken in developing an Exposure Draft (ED) of Amendments to IFRS 4 (Agenda Paper 14E for that meeting[2]). IASB members confirmed that they are satisfied that the IASB has completed the necessary due process steps on the project to date and therefore instructed the staff to commence the balloting process for the ED. The IASB expects to publish the ED in December 2015.

[2] Agenda Paper 14E for the IASB's September 2015 meeting can be accessed at: http://www.ifrs.org/Meetings/MeetingDocs/IASB/2015/September/AP14E-IFRS%209%20and%20IFRS%204.pdf.

Papers for this meeting

9. The papers for this meeting are:

   (a) Agenda Paper 14A *Comment letter period* asks the IASB to set the comment period for the forthcoming ED. Those proposals, if confirmed, will need to be issued at a time that is reasonably in advance of 1 January 2018, the mandatory effective date for IFRS 9. Consequently, the staff is recommending a comment period of 60 days.

   (b) Agenda Paper 14B *Applicability of the Deferral and Overlay Approaches for first-time adopters of IFRS* considers the applicability of both approaches for entities preparing their first set of financial statements in accordance with IFRS (first-time adopters) prior to the new insurance contracts Standard. The staff is recommending that first-time adopters of IFRS should be prohibited from applying the Deferral and Overlay approaches.