STAFF PAPER

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Project	**Insurance Contracts**
Paper topic	Restatement of comparative information on initial application of the new insurance contracts Standard

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Purpose of the paper

1. At present entities that issue insurance contracts in the scope of IFRS 4 *Insurance Contracts* account for financial assets under IAS 39 *Financial Instruments: Recognition and Measurement* and insurance contracts under IFRS 4.

2. In future, entities that issue insurance contracts will have to account for:

   (a) financial assets under IFRS 9 *Financial Instruments*; and

   (b) insurance contracts under the new insurance contracts Standard.

3. The IASB has reached different conclusions on restatement of prior-period comparative information in IFRS 9 and in its deliberations on the new insurance contracts Standard.

4. This paper:

   (a) summarises the requirements for restatement of comparative information on initial application of IFRS 9 and the IASB's decisions to date on that topic in the new insurance contracts Standard (paragraphs 7–13(b));

   (b) considers the consequences of the general requirement for restatement of comparative information about insurance contracts on initial application of the new insurance contracts Standard and the interaction

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with the relief from restating comparative information for financial assets in IFRS 9.[1]

(c) provides a staff recommendation on whether to retain the requirement for restatement of comparative information about insurance contracts proposed in the 2013 ED for all entities that apply the new insurance contracts Standard; and

(d) provides a staff recommendation on whether to require restatement of comparative information about financial assets if, on initial application of the new insurance contracts Standard, an entity chooses to apply a transition relief:

(i) to redesignate or to revoke previous designation to reflect the relationship between the financial assets and insurance contracts (ie the fair value option (FVO) for financial assets and the other comprehensive income (OCI) presentation election for investments in equity instruments); or

(ii) to reassess the business model for managing financial assets as proposed in Agenda Paper 2A.

Summary of staff recommendation

5. The staff recommend that the IASB:

(a) confirm in the new insurance contracts Standard the 2013 proposal that, on initial application of the new insurance contracts Standard, all entities are required to restate comparative information about insurance contracts; and

(b) on initial application of the new insurance contracts Standard, to permit (but not require) entities that have previously applied IFRS 9 to restate

[1] The relief from restating comparative information in IFRS 9 applies to all of the classification and measurement requirements in that Standard—and if an entity chooses to restate prior periods, the restated financial statements must reflect all of those requirements. However, in this paper, the staff have focused specifically on financial assets because we are discussing the interaction between financial assets and insurance contracts.

comparative information about financial assets only if it is possible without hindsight if the entity chooses to apply the transition reliefs:

(i) to designate or de-designate financial assets under the FVO or OCI presentation election for investments in equity instruments ; and

(ii) to reassess the business model for managing financial assets.

6. The appendix summarises the outcome of the staff recommendations.

Background and previous decisions regarding restatement of comparative information about financial assets and insurance contracts

Financial assets—IFRS 9 requirements for restatement of comparative information

7. The completed version of IFRS 9, which was published in July 2014 with a mandatory effective date of 1 January 2018, brings together all the phases of the IASB's project to replace IAS 39. Transition provisions of this Standard went through extensive consultation during each phase of the project and we do not propose to revisit those requirements in the project on insurance contracts.[2]

8. The general transition approach in IFRS 9 is that an entity must apply the classification and measurement requirements retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. However, IFRS 9 provides a number of reliefs to this requirement to make its implementation practicable. In addition, IFRS 9 prohibits its application to items that have already been derecognised at the date of initial application.[3]

9. Despite requiring retrospective application, IFRS 9 does not require the restatement of prior-period financial statements for the initial application of the classification and measurement requirements of IFRS 9 (but permits restatement if,

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[2] For example, the 2009 Exposure Draft 'Financial Instruments: Classification and Measurement' proposed to require restatement of prior periods (except for some proposed relief from restating prior interim periods); IFRS 9 (2009) and IFRS 9 (2010) granted short-term relief from restating prior periods (ie relief only for entities that initially applied IFRS 9 before 1 January 2012); and the amendments made to IFRS 9 in November 2011 provided further relief from restating prior periods with the result that IFRS 9 now permits, but does not require, restatement but instead requires additional transition disclosures.

[3] See paragraphs 7.2.1–7.2.26 of IFRS 9.

and only if, it is possible without hindsight). If an entity does not restate prior periods, the entity recognises 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, in the opening retained earnings (or other component of equity, as appropriate). Additionally, the entity must provide disclosures to explain the effect of the transition from IAS 39 to IFRS 9.[4]

10. As described in the Basis for Conclusions on IFRS 9, the IASB believes that the transition disclosures would strike a balance between the need to provide the information necessary for users of financial statements to understand the effect of the transition from IAS 39 to IFRS 9 and the burden on preparers that would result from the restatement of comparative financial statements. This conclusion was based on the consideration of the following concerns raised by stakeholders:

    (a) comparability of restated financial statements would already be impaired by the transition requirements which are complex and inconsistent across various phases of the project. For example, the classification and measurement phase requires retrospective application but also provides some transition reliefs, whereas the hedge accounting phase requires prospective application. The partial restatement of comparative financial statements could create confusion or a misleading impression of period-to-period comparability.

    (b) the fact that:

        (i) IFRS 9 is not applied to items that have already been derecognised as of the date of initial application; and

        (ii) the business model assessment and particular elections (eg the FVO) must be performed on the basis of facts and circumstances that exist at the date of initial application of IFRS 9, so an entity is unable to compile restated comparative information for a prior period until its date of initial application has passed.

[4] See paragraph 7.2.15 of IFRS 9 and paragraphs 42K–42O of IFRS 7.

Insurance contracts—proposals for restatement of comparative information in the 2013 ED and considered to date

11. The 2013 ED proposed that:

    (a) where practicable, an entity should apply the proposed insurance contracts Standard retrospectively in accordance with IAS 8;[5]

    (b) when retrospective application is impracticable, an entity should apply a simplified approach that would enable entities to approximate retrospective application.[6]

    (c) an entity should present comparative information in all periods presented.

12. The IASB's view was that retrospective application provides the most useful information to users of financial statements by allowing comparisons between contracts written before and after the date the proposed Standard is applied, and would enable comparisons using trend information about insurance contracts. The simplified approach would provide a pragmatic approach when retrospective application is impracticable.

13. In October 2014 the IASB tentatively decided to confirm the 2013 ED proposals that at the beginning of the earliest period presented an entity should apply the new Standard retrospectively in accordance with IAS 8 unless impracticable. It also considered the respondents' concerns about operational complexity and the possible lack of data needed to apply the proposed approach (including the simplified approach) and tentatively decided:

    (a) to further simplify the simplified approach; and

    (b) to propose an alternative approach (called a 'fair value approach') if the simplified approach is impracticable (see January 2015 Agenda Paper 2A).

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[5] See paragraphs C2–C4 of the 2013 Exposure Draft *Insurance Contracts*.

[6] See paragraphs C5–C6 of the 2013 Exposure Draft *Insurance Contracts*.

Interaction between the requirements in IFRS 9 and the decisions to date in the new insurance contracts Standard for the restatement of prior periods

14. In the analysis below, the staff considers two situations:

    (a) An entity initially applies IFRS 9 **at the same time** as it initially applies the new insurance contracts Standard. This situation could arise if an entity applies the Deferral Approach[7] to be proposed in the forthcoming Exposure Draft of amendments to IFRS 4, or if an entity applies the new insurance contracts Standard early.

    (b) An entity applies IFRS 9 **before** it initially applies the new insurance contracts Standard.

Restatement of comparative information when IFRS 9 and the new insurance contracts Standard are initially applied at the same time

15. Applying the existing requirements of IFRS 9 and decisions to date in the new insurance contracts Standard, entities that initially apply both IFRS 9 and the new insurance contracts Standard at the same time:

    (a) would restate comparative information about insurance contracts as required by the proposed insurance contracts Standard, but

    (b) would not be required to restate comparative information about related financial assets, but could choose to do so only if it is possible without the use of hindsight in accordance with IFRS 9.

16. Some might be concerned that financial statements that restate comparative information about insurance contracts, but not about financial assets, could distort users' understanding of those entities' economic circumstances and transactions both in prior periods and the current period. This is because the comparative period might show accounting mismatches between insurance contracts and related financial assets, and the net financial position and profit reported by

[7] In September 2015 the IASB tentatively decided that the Deferral Approach should be permitted for an entity that issues contracts within the scope of IFRS 4, if that activity is predominant for the reporting entity.

entities in the comparative period would not be comparable to that reported in the current reporting period.

17. Arguably, the IASB could address this issue by reconsidering the requirements on restatement of comparative information in IFRS 9. However, as discussed above in paragraph 7, the staff do not propose to re-open the transition requirements in IFRS 9 in the project on insurance contracts.

18. Therefore, while retaining the existing requirements on prior-period restatement in IFRS 9, the IASB could consider these alternatives:

    (a) Alternative A—adjusting the proposed approach to comparatives in the new insurance contracts Standard so that it requires a restatement of comparative information about insurance contracts only if the entity has restated comparative information for IFRS 9; or

    (b) Alternative B—retaining the proposed approach to comparatives in the new insurance contracts Standards.

Alternative A—comparative information about insurance contracts is restated only if comparative information is provided for IFRS 9

19. Alternative A would require adjusting the proposed approach to comparatives in the new insurance contracts Standard so that it requires a restatement of comparative information about insurance contracts only if comparative information is also provided in accordance with IFRS 9. Otherwise, an entity that does not restate comparative information in accordance with IFRS 9 would be prohibited from restating comparative information about insurance contracts. An entity would instead recognise any cumulative gain or loss resulting from the initial application of the new insurance contracts Standard in the opening balance of retained earnings or accumulated OCI of the period when the new insurance contracts Standard is initially applied. Financial assets for the previous periods would be presented in accordance with IAS 39; insurance contracts – in accordance with IFRS 4, so no accounting mismatches will be introduced which may be the case if the comparative information about insurance contracts is restated in accordance with the new insurance contracts Standard.

20. However, if comparative information about insurance contracts is not restated users of financial statements of entities that issue insurance contracts (including those entities for whom it is a predominant activity) will not get comparable information about those insurance contracts from period to period. This means that on transition to the new insurance contracts Standard, users will have an impaired ability to assess the trend information of such entities and the effects resulting from the change from IFRS 4 to the new insurance contracts Standards.

21. Furthermore, relief from providing comparative information about insurance contracts for prior periods would also contradict the general principle in IAS 8 which requires restatement unless it is impracticable.

22. These concerns could be partly addressed by requiring entities to disclose in the notes to the financial statements the comparative information that would otherwise have been presented on the face of the financial statements had the entity restated the comparative year. Such disclosures could provide users with information necessary for trend analysis in the notes to the financial statements. The staff think that provision of disclosures about prior periods should not cause practical problems for entities that have enough time to prepare for implementation of the new insurance contracts Standard: the entity would need to measure the fulfilment cash flows at the beginning of the earliest period presented and at the end of each period presented. This would also mean the contractual service margin would be determined at the beginning of the earliest period presented and updated for each subsequent period.

Alternative B—retaining the proposed approach to comparatives in the new insurance contracts Standard

23. Under alternative B, entities that initially apply IFRS 9 and the new insurance contracts Standard at the same time and do not provide comparative information as permitted in accordance with IFRS 9, would still be required to provide comparative information about insurance contracts. The staff think it is an important advantage of this alternative that it will provide comparable information about insurance contracts on the face of the financial statements, even if the

equivalent information is not available for financial assets.[8] At present IFRS 4 permits a wide variety of diverse practice, so restatement of comparative information about insurance contracts would be important for assessing the results under the new model.

24. However, the disadvantage of this alternative is that the accounting for financial assets in prior periods will not necessarily be aligned with the accounting for the insurance contracts that they relate to. For example, if an entity accounted for financial assets at amortised cost under IAS 39 and at FVPL under IFRS 9, and insurance contracts on a cost basis under IFRS 4 and on a current basis under the new insurance contracts Standard, then restating both the current and comparative periods to measure insurance contracts at a current value may suggest a bigger change in net equity than would actually be the case.

Staff recommendation and question for the IASB

25. Both alternatives would provide comparative information about insurance contracts:

    (a) alternative A in the notes to the financial statements; and

    (b) alternative B on the face of the financial statements.

26. Thus, the question for the IASB is to balance the more visible presentation of comparative information about insurance contracts against the disadvantages of non-aligned accounting for financial assets and insurance contracts in the comparative period. On balance, the staff think that non-provision of comparative information about insurance contracts on the face of the financial statements would reduce the usefulness of financial statements on initial application of the new insurance Standard and hinder the assessment of the effects of applying the new insurance contracts Standard for the first time. Taking this into consideration, and that the requirements for comparative information under IFRS 9 and under the new insurance contracts Standard reflect different considerations that were subject to extensive consultation and were (separately) widely supported

[8] As noted in paragraph 9, IFRS 9 requires additional disclosures to explain the effect of the transition from IAS 39 to IFRS 9 on the initial application of IFRS 9.

by the constituents, the staff recommend to retain the requirement to restate comparative information in the new insurance contracts Standard.

Question 1—Retaining a general requirement for restating comparative information about insurance contracts
Does the IASB agree to confirm in the new insurance contracts Standard the 2013 proposal that, on initial application of the new insurance contracts Standard, all entities are required to restate comparative information about insurance contracts?

Restatement of comparative information when IFRS 9 is applied before the new insurance contracts Standard

27. As the earliest possible mandatory effective date of the new insurance contracts Standard is likely to be 1 January 2020, entities that issue insurance contracts and cannot or choose not to apply the Deferral Approach (and decide not to early apply the new insurance contracts Standard) will apply IFRS 9 for at least two years before they have to apply the new insurance contracts Standard. Consequently, on initial application of the new insurance contracts Standard, prior periods in the financial statements of those entities will:

    (a) reflect the requirements of IFRS 9 because it has been applied in those prior periods; and

    (b) present comparative information about insurance contracts in accordance with the new insurance contracts Standard.

28. Entities that present comparative information that dates back further than the annual period when IFRS 9 was initially applied (eg annual periods that begin before 1 January 2018 if an entity did not early apply IFRS 9) , or that choose to apply the new insurance contracts Standard early, may not reflect the requirements of IFRS 9 for all comparative periods presented. In this case, the considerations for restatement of comparative information of these entities should be similar to that of entities that initially apply both Standards at the same time,

which is discussed in the previous section of this paper. This section does not discusses those situations further but rather focuses on the situation set out in paragraph 28.

29. Even if prior periods in the financial statements reflect the requirements of IFRS 9 (eg because that Standard was applied in those periods), if the entity chooses to apply transition reliefs discussed in Agenda Paper 2A, the question arises as to whether comparative information about financial assets should be restated if those transition reliefs change how the financial assets are classified and measured. Specifically, those reliefs permit an entity, on transition to the new insurance contracts Standard, to:

    (a) designate or de-designate financial assets under the FVO or the OCI presentation election for investments in equity instruments; and

    (b) reassess the business model for managing financial assets.

30. The staff think when setting the provisions for restatement of comparative information about financial assets for entities that apply IFRS 9 before they initially apply the new insurance contracts Standard, the IASB should aim to arrive at transition requirements that are consistent with (and do not create a disadvantage compared to):

    (a) those provided in IFRS 9 for the initial application of that Standard; and

    (b) those that would apply to entities that apply IFRS 9 and the new insurance contracts Standard at the same time.

31. In Agenda Paper 2A, the staff recommends that an entity applies the reassessment of the business model and the designation and de-designation of financial assets under the FVO and the OCI presentation election based on the facts and circumstances that exist at the date of initial application of the insurance contracts Standard, and the resulting classification is applied retrospectively (ie as if the financial assets had always been so classified). This is consistent with the transition provisions in IFRS 9, which require an entity to perform the business model assessment and make its FVO and OCI presentation elections on the basis of the facts and circumstances that exist on the date of initial application of IFRS

9 and to apply the resulting classifications retrospectively (irrespective, for example, of the entity's business model in prior reporting periods).

32. As noted above, the staff think that the provisions for restatement of comparative information about financial assets for entities that apply IFRS 9 before they apply the new insurance contracts Standard — and then subsequently apply the transition relief described above for financial assets on transition to the new insurance contracts Standard —should be consistent with (and not create a disadvantage compared to) the provisions for those who initially apply these Standards at the same time or those who apply IFRS 9 before the new insurance contracts Standard but do not apply the transition relief. Accordingly, the staff recommend that entities need not restate prior periods to reflect the effects of the transition reliefs in the new insurance contracts Standard for financial assets (ie if those reliefs change how the financial assets are classified and measured) but may do so only if it is possible without the use of hindsight.

33. The staff observes that applying the classification that results from the transition reliefs retrospectively and restating the comparative periods:

    (a) is unlikely to create significant operational difficulties if the entity previously measured the financial assets at amortised cost or fair value through other comprehensive income (FVOCI) and measures the financial assets at FVPL after applying the transition reliefs;

    (b) could create operational difficulties if the entity previously measured the financial assets at FVPL and measures the financial assets at amortised cost or FVOCI after applying the transition reliefs. This is because the entity would need to apply the effective interest method and the new impairment approach in prior periods. The staff notes that IFRS 9 already contains transition relief for these issues which would be equally relevant here.[9]

[9] See paragraphs 7.2.11 and 7.2.18-7.2.20 of IFRS 9.

Question 2—Restatement of comparative information when applying the transition reliefs in the new insurance contracts Standard

Does the IASB agree that, on initial application of the new insurance contracts Standard, to permit (but not require) entities that have previously applied IFRS 9 to restate comparative information about financial assets only if it is possible without hindsight if the entity chooses to apply the transition reliefs:

(a) to designate or de-designate financial assets under the FVO or OCI presentation election for investments in equity instruments; and

(b) to reassess the business model for managing financial assets?

Appendix: Possible scenarios of applying IFRS 9 and the new insurance contracts Standard and how it would affect the restatement of prior-period comparative information

IFRS 9 and the new ICS are applied together

Does an entity restate comparative information about financial assets in accordance with IFRS 9?

IFRS 9 is applied before the new ICS

Does an entity choose to apply the transition reliefs in the new insurance contracts Standard?

	yes	no	yes	no
Is comparative information about financial assets restated?	☑	☒	☑ (if available without hindsight) - if the IASB agrees to the staff recommendation	☑ (already exists)
Is comparative information about insurance contracts restated?	☑	☑ - if the IASB agrees to the staff recommendation	☑	☑