STAFF PAPER

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REG IASB Meeting

Project	**Different effective dates of IFRS 9 and the new insurance contracts Standard**
Paper topic	A summary of approaches

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Purpose of the paper

1. This paper concludes the series of papers on potential amendments to IFRS 4 *Insurance Contracts* that address concerns raised about applying IFRS 9 *Financial Instruments* in conjunction with IFRS 4.

2. This paper provides a comparative summary of the Overlay Approach (discussed in Agenda Paper 14B) and the Deferral Approach (discussed in Agenda Paper 14C). This paper is provided in order to facilitate understanding and discussion of those approaches. The staff do not intend to separately discuss this paper at the Board meeting and thus it does not contain questions for the IASB.

Comparison of the Overlay Approach and the Deferral Approach to addressing the concerns related to the interaction between IFRS 9 and IFRS 4

	The Overlay Approach	**The Deferral Approach, Alternative 1—at the reporting entity level**	**The Deferral Approach, Alternative 2—below reporting entity level**
Scope, eligible entities	Entities that issue contracts within the scope of IFRS 4	Entities that issue contracts within the scope of IFRS 4 if that activity is predominant. The potential amendments to IFRS 4 would provide guidance on how predominance should be assessed.	Entities that issue contracts within the scope of IFRS 4.
Scope, eligible assets	The overlay would apply to financial assets (1) that are measured at FVPL under IFRS 9 but were not, or would not have been, so measured under IAS 39, and (2) are designated by those entities as relating to contracts within the scope of IFRS 4.	Deferral of IFRS 9 would apply to all financial assets held by eligible entities.	For eligible entities, deferral of IFRS 9 would apply to all financial assets held **by all eligible parts** but would not apply to financial assets held by parts of the entity that are not eligible. The potential amendments to IFRS 4 would set out the requirements for how to determine the eligible parts and thus determine which financial assets in an eligible entity the deferral would apply to.

	The Overlay Approach	The Deferral Approach, Alternative 1—at the reporting entity level	The Deferral Approach, Alternative 2—below reporting entity level
Required or optional	Optional, ie the eligible entity can choose whether to apply the Overlay Approach or not. The entity can also choose whether to apply the Overlay Approach to all, or some, eligible financial assets.	Optional, ie the eligible entity can choose whether to apply the Deferral Approach or not. However if applied, the Deferral Approach must apply to all financial assets held by the entity.	Optional, ie the eligible entity can choose whether to apply the Deferral Approach or not. However if applied, the Deferral Approach must apply to all financial assets held by all eligible parts of the entity.
Initial application of approach	All entities that issue contracts within the scope of IFRS 4 are eligible to apply the Overlay Approach. An entity is permitted to apply the Overlay Approach only when it first applies IFRS 9, including if it applies IFRS 9 early.	An entity that wishes to apply the Deferral Approach must assess whether it is eligible for that approach as of the date that it would otherwise be required to initially apply IFRS 9 and start applying the Deferral Approach from that date.	An entity that wishes to apply the Deferral Approach must assess whether it is eligible for that approach and determine which specific financial assets that approach would apply to as of the date that it would otherwise be required to initially apply IFRS 9 and start applying the Deferral Approach from that date.
Reassessment of scope	An entity's eligibility for the Overlay Approach may change over time. However, the circumstances in which an entity stops issuing contracts within the scope of IFRS 4 and derecognises all of its contracts within the scope of IFRS 4 is likely to be very rare.	An entity's eligibility for the Deferral Approach may change over time, for example, if an entity acquires or sells a business and that changes the assessment of the predominant activities of the entity. If an entity that applies IFRS 9 subsequently	Eligibility for the Deferral Approach may change over time. The specific circumstances when that may be the case would depend on the specific requirements set out in the proposed amendments to IFRS 4 for how to determine whether a part of the entity is

	The Overlay Approach	The Deferral Approach, Alternative 1—at the reporting entity level	The Deferral Approach, Alternative 2—below reporting entity level
	If an entity applied the Overlay Approach when it first applies IFRS 9, but in a subsequent reporting period became ineligible for the Overlay Approach, the entity must stop applying the Overlay Approach from that period. At that time the entity should reclassify any balance of prior periods' overlay adjustments accumulated in OCI to the opening balance of retained earnings as of the beginning of the earliest reporting period presented. If an entity that did not apply the Overlay Approach subsequently became eligible for that approach, it is not permitted to start applying the Overlay Approach from that subsequent date.	becomes eligible for the Deferral Approach, it is not permitted to stop applying IFRS 9 and revert to applying IAS 39. If an entity applied the Deferral Approach but in a subsequent reporting period became ineligible for the Deferral Approach it must stop applying that approach. It must stop applying IAS 39 and start applying IFRS 9 from the beginning of the next annual reporting period. In doing so, the entity applies the transition provisions in IFRS 9.	eligible for the Deferral Approach. If an entity applies IFRS 9 to financial assets held within a part of the entity and that part subsequently becomes eligible for the Deferral Approach, the entity is not permitted to stop applying IFRS 9 to those financial assets and revert to applying IAS 39. If an entity applied the Deferral Approach to financial assets held within a part of the reporting entity but in a subsequent reporting period that part of the entity became ineligible for the Deferral Approach the entity must stop applying that approach to those financial assets. It must stop applying IAS 39 to those financial assets and start applying IFRS 9 from the beginning of the next annual reporting period. In doing so, the entity applies transition provisions in IFRS 9 to that part of the entity.

	The Overlay Approach	The Deferral Approach, Alternative 1—at the reporting entity level	The Deferral Approach, Alternative 2—below reporting entity level
Redesignations and dedesignations of financial assets as relating to contracts within the scope of IFRS 4	An entity may designate or dedesignate particular financial assets as relating to contracts within the scope of IFRS 4 if there is a change in the relationship between financial assets and contracts within the scope of IFRS 4 subsequent to initial application of IFRS 9. The overlay adjustment may apply when a particular financial asset is designated as relating to contracts within the scope of IFRS 4 and ceases to apply if a financial asset is dedesignated. Any balance of prior periods' overlay adjustments on that financial asset accumulated in OCI is reclassified to profit or loss in the period of dedesignation (ie, immediately).	Not applicable	Not applicable

	The Overlay Approach	The Deferral Approach, Alternative 1—at the reporting entity level	The Deferral Approach, Alternative 2—below reporting entity level
Accounting for transfers of financial assets between parts of the entity that apply different approaches	A financial asset could be transferred between parts of the entity to which the Overlay Approach is applied and those to which it is not applied. The overlay adjustment applies if a financial asset is transferred to a part of the entity such that it relates to contracts within the scope of IFRS 4 and ceases to apply if a financial asset is transferred to a part of the entity where it no longer relates to contracts within the scope of IFRS 4. Any balance of overlay adjustments on that financial asset accumulated in OCI is reclassified to profit or loss at the time of dedesignation (ie, immediately).	Not applicable	A financial asset could be transferred between parts of the entity to which the Deferral Approach is applied and those to which it is not applied. Upon such a transfer, the classification and measurement model applied to that financial asset changes and any gain or loss on such a transfer is recognised and separately presented in the statement of profit or loss. Potential amendments to IFRS 4 set out requirements for how to account for such changes in classification, and related presentation and disclosure requirements.
Transition out of the approach	An entity is permitted to stop applying the Overlay Approach from the beginning of any annual reporting period before initial application of the new insurance contracts Standard. An entity is required to stop applying the	An entity is permitted to stop applying the Deferral Approach (ie to stop applying IAS 39 and start applying IFRS 9) from the beginning of any annual reporting period before initial application of the new insurance contracts Standard. In doing so, the entity applies the	An entity is permitted to stop applying the Deferral Approach (ie to stop applying IAS 39 and start applying IFRS 9) from the beginning of any annual reporting period before initial application of the new insurance contracts Standard. If an entity wishes to stop applying

	The Overlay Approach	The Deferral Approach, Alternative 1—at the reporting entity level	The Deferral Approach, Alternative 2—below reporting entity level
	Overlay Approach when it applies the new insurance contracts Standard. When an entity stops applying the Overlay Approach it shall reclassify any balance of prior periods' overlay adjustments accumulated in OCI to the opening balance of retained earnings as of the beginning of the earliest reporting period presented.	transition provisions in IFRS 9. An entity is required to stop applying the Deferral Approach when it initially applies the new insurance contracts Standard. In doing so, the entity applies the transition provisions in IFRS 9 as well as any applicable transition requirements in the new insurance contracts Standard.	the Deferral Approach, it must stop applying it to all eligible parts of the entity. In doing so, the entity applies the transition provisions in IFRS 9 to all of those parts of the entity. An entity is required to stop applying the Deferral Approach (ie to stop applying IAS 39 and start applying IFRS 9) when it initially applies the new insurance contracts Standard. In doing so, the entity applies the transition provisions in IFRS 9 to all of those parts of the entity as well as any applicable transition requirements in the new insurance contracts Standard.
Presentation and disclosure	An entity that applies an overlay adjustment should present a single line item for the amount of the overlay adjustment in the profit or loss or the OCI sections of the statement of comprehensive income or both. An explanation of that adjustment is disclosed in the notes.	IAS 39 information is provided on the face of the primary statements. IFRS 9 information, including associated disclosures required by IFRS 7 *Financial Instruments: Disclosures*, is disclosed in the notes.	A mixture of IAS 39 and IFRS 9 information is provided on the face of the primary financial statements. The remaining IFRS 9 information, including associated disclosures required by IFRS 7, is disclosed in the notes.