

## STAFF PAPER

September 2015

## REG IASB Meeting

Project	Different effective dates of IFRS 9 and the new insurance contracts Standard		
Paper topic	Due process and permission to ballot		
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This paper has been prepared for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

**Purpose of this paper**

1. In Agenda Papers 14B–14D at this meeting, the staff will ask the IASB to decide on the proposals that could address the possible accounting consequences of the application of IFRS 9 *Financial Instruments* (IFRS 9) prior to the application of the new insurance contracts Standard. Provided that the IASB makes the tentative decisions requested in Agenda Papers 14B–14D, the staff will have sufficient decisions in order to proceed with the drafting of the Exposure Draft to amend IFRS 4 *Insurance Contracts* (the ‘ED to amend IFRS 4’).
2. Accordingly, the objective of this paper is:
  - (a) to consider the effective date and the expiry date of the proposed amendments to IFRS 4 (paragraphs 6–12).
  - (b) to ask the IASB for permission to ballot the ED to amend IFRS 4 and about any intentions to dissent (paragraphs 14–15). As part of that consideration, the staff have provided a summary of the due process steps undertaken in developing the ED to amend IFRS 4 (see paragraph 13 and Appendix A of this paper).

3. This paper does not consider the comment letter period. The staff plan to ask the IASB about the duration of the comment letter period of the ED to amend IFRS 4 at a future meeting.

### Summary of recommendations

4. The staff recommend that that the ED to amend IFRS 4:
  - (a) should state that:
    - (i) the effective date of the proposed requirements is for annual periods beginning on or after 1 January 2018; and
    - (ii) early adoption is permitted if an entity adopts IFRS 9 early; and
  - (b) should not specify an expiry date of the proposed requirements.

This is discussed in paragraphs 6–12.

5. The staff is also asking the IASB for permission to ballot the ED to amend IFRS 4 and about any intentions to dissent. This is discussed in paragraphs 13–15

### Staff Analysis

#### ***Effective and expiry date***

##### *Effective date and early adoption*

6. Paragraph 6.35 of the *Due Process Handbook* requires that the mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems and those applying IFRS have sufficient time to prepare for the new requirements. Consequently, normally the IASB sets the effective date of any new requirements only after the requirements are finalised and not when any requirements are proposed.
7. However, the staff believe that it would be beneficial to specify the effective date of the proposed requirements in the ED to amend IFRS 4. This is because indicating an effective date that is aligned with the effective date of IFRS 9 will reduce stakeholders' uncertainty and facilitate implementation of both the

amendment and IFRS 9. The amendment addresses the accounting consequences of a misalignment of IFRS 9 and the new insurance contracts Standard.

8. Accordingly, the staff see merit in indicating in the ED to amend IFRS 4 that:
  - (a) the expected effective date of the amendment to IFRS 4 is 1 January 2018, which is the same as the effective date of IFRS 9;
  - (b) early adoption is permitted if an entity adopts IFRS 9 early.

*Expiry date*

9. Some stakeholders that have asked the IASB to address the consequences of the misaligned effective dates have done so with the provision that any requirements to address those consequences should be effective only for a short time. This point has been raised in the context of a deferral of IFRS 9 and is based on the assumption that the forthcoming insurance contracts Standard will be effective no later than 2020 or a similar date. Those stakeholders believe that any application of IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) should only last for two years after the effective date of IFRS 9 because of the possibility that an extended application of IAS 39 will cause confusion in the markets. In addition, they observe that the IASB will no longer maintain IAS 39 and, therefore, those requirements would become outdated and increasingly irrelevant over time.
10. The staff have considered these arguments but do not recommend that the IASB set a mandatory expiry date of the proposed requirements. This is because the expiration of the requirements should be dependent on the effective date of the new insurance contracts Standard and not the date by which, at the time of issuing the amendments to IFRS 4, the IASB expects the new insurance contract Standard to become effective. It is not appropriate to penalise preparers and users of financial statements if the new insurance contracts Standard is not effective by that arbitrary date.
11. In addition, the question of whether to specify an expiry date for temporary measures was discussed in the context of the due process review of IFRS 14 *Regulatory Deferral Accounts* (IFRS 14), which was undertaken by the Due Process Oversight Committee (DPOC). IFRS 14 is an interim Standard that

provides short-term guidance on rate-regulated activities for first-time adopters of IFRS. It will be effective until that research project is completed. The DPOC and the IASB members present at the January 2014 meeting concluded that specifying an expiry date would be impracticable. The staff think that the same considerations apply to setting an expiry date of the requirements proposed in the ED to amend IFRS 4.

12. Staff expects that the IASB would review any amendments to IFRS 4 if the original period between the IFRS 9 and the new insurance contracts Standard is longer than expected at this time.

**Question 1 for the IASB—effective date and expiry date**

1. Does the IASB agree that the ED to amend IFRS 4:
- (a) should state that:
    - (i) the effective date of the proposed requirements is for annual periods beginning on or after 1 January 2018; and
    - (ii) early adoption is permitted if an entity adopts IFRS 9 early; and
  - (b) should not specify an expiry date of the proposed requirements?

***Due process steps***

13. The staff note that the proposed amendment to IFRS 4 applies only to entities issuing insurance contracts accounted for in accordance with IFRS 4 and that choose to apply the proposals. Consequently, as presented in Appendix A of this paper, the due process steps are commensurate with the targeted nature of the proposed amendment. Staff consider that the due process steps for the publication of the proposed amendments have been met.

***Permission to ballot and intentions of dissent***

14. Assuming that the IASB’s discussions on Agenda Papers 14B–14D proceed as planned, the staff are asking the IASB for permission to ballot the ED to amend IFRS 4. The staff expect to publish the ED in late 2015.
15. In accordance with paragraph 6.23 of the *Due Process Handbook*, the staff are also formally asking whether any IASB members intend to dissent from the publication of the ED to amend IFRS 4.

<b>Questions for the IASB</b>
<p><b>Question 2—due process steps and permission to ballot</b></p> <p>Is the IASB satisfied that the due process requirements have been met and that it has undertaken sufficient consultation and analysis to be able to begin the balloting process for the ED to amend IFRS 4?</p> <p><b>Question 3—dissents</b></p> <p>Do any members of the IASB plan to dissent from the publication of the ED to amend IFRS 4?</p>

**Appendix A**  
**Confirmation of the due process steps followed in the development of the Exposure Draft to amend IFRS 4 *Insurance Contracts***

Step	Required /optional	Metrics or evidence	Actions
<b>Consultation</b>			
IASB meetings held in public, with papers available for observers. All decisions are made in public session.	Required	Meetings held. Project website contains a full description with up-to-date information. Meeting papers posted in a timely fashion.	The IASB has discussed the interaction of IFRS 4 <i>Insurance Contracts</i> and IFRS 9 <i>Financial Instruments</i> prior to the finalisation of the effective date of IFRS 9 (in seven Agenda Papers between 2009 and 2014) and also recently, in January, March and at every IASB meeting between May and September 2015. Details of the project are available on the IASB website. As far as possible, Agenda Papers for meetings have been posted in a timely fashion. All late posting of Agenda Papers will be reported to the DPOC.
Consultation with the Trustees and the IFRS Advisory Council.	Required	Discussions with the IFRS Advisory Council.	The Trustees and the IFRS Advisory Council have been informed about the possible accounting consequences arising from applying IFRS 9 prior to the new insurance contract Standard as part of the regular reporting process to them.
Analysis of the likely effects of the forthcoming Standard or major amendment, for example, initial costs or ongoing associated costs.	Required	Publication of the Effects Analysis as part of the Basis for Conclusions.	We assessed the likely effects of the proposed amendment for preparers as being limited because it is narrow in scope and the proposals in the amendment are optional. If the IASB decides to propose the deferral of IFRS 9 as discussed in Agenda Paper 14C, this may reduce

<b>Step</b>	<b>Required /optional</b>	<b>Metrics or evidence</b>	<b>Actions</b>
			the comparability of information between those that apply the deferral and those that do not. A description of the potential financial reporting effects of the proposed amendment will be included in the Basis for Conclusions of the ED.
Outreach meetings with a broad range of stakeholders, with special effort to consult investors.	Optional	Extent of meetings held. Evidence of specific targeted efforts to consult investors.	The IASB staff have developed the proposals in response to feedback from the insurance industry.  As set out in Agenda Paper 14A for the September 2015 IASB meeting, the IASB staff have conducted outreach with investors.
<b>Finalisation</b>			
Due process steps reviewed by the IASB.	Required	Summary of all due process steps discussed by the IASB before a Standard is issued.	Presented at the IASB meeting in September 2015.
The ED has an appropriate comment period.	Required	The period has been set by the IASB. If outside the normal comment period, an explanation from the IASB to the DPOC has been provided and the decision has been approved.	To be discussed with the IASB at a future meeting.
<b>Drafting</b>			
Drafting quality assurance steps are adequate.	Required	The TAC team has been included in the review process.	The TAC team will be asked to review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Required	The XBRL team has been included in the review process.	The XBRL team will be asked to review the pre-ballot draft.
<b>Publication</b>			
ED published.	Required	The ED has been posted on the IASB website.	The ED to amend IFRS 4 will be posted on the IASB website.

<b>Step</b>	<b>Required /optional</b>	<b>Metrics or evidence</b>	<b>Actions</b>
Press release to announce publication of the ED.	Required	A Press release has been published. Media coverage of the release.	A press release will be published announcing the ED to amend IFRS 4.