STAFF PAPER

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IASB Meeting

Project	**Amendments to IFRS 4: Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts***
Paper topic	Fixed expiry dates and other aspects of the temporary exemption and the overlay approach

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Purpose of this paper

1. This paper considers the following aspects of the proposals in the Exposure Draft *Applying IFRS 9* Financial Instruments *with IFRS 4* Insurance Contracts (Amendments to IFRS 4) (the ED):
   - (a) the fixed expiry date for the temporary exemption from applying IFRS 9 *Financial Instruments* (IFRS 9) (the temporary exemption) (paragraphs 3 - 12);
   - (b) whether an entity should be allowed to stop applying the temporary exemption before the fixed expiry date (paragraphs 13 - 15);
   - (c) transition to IFRS 9 when an entity stops applying the temporary exemption (paragraphs 16 - 18);
   - (d) whether the overlay approach should have a fixed expiry date (paragraphs 19 - 21); and
   - (e) the effective date of the proposed amendments to IFRS 4 *Insurance Contracts* (IFRS 4) (paragraphs 22 - 24).

Staff recommendations

2. The staff recommend that the Board confirms the following ED proposals:

   (a) an entity should be required to cease applying the temporary exemption no later than for annual reporting periods beginning on or after 1 January 2021 [ED paragraph (para) 20A][1];

   (b) an entity that previously elected to apply the temporary exemption may at the beginning of any subsequent annual reporting period choose to apply IFRS 9 rather than IAS 39 [ED para 20E];

   (c) an entity that chooses or is required to cease applying the temporary exemption should, on initial application of IFRS 9, use the relevant transition requirements in that IFRS. Such entities should be permitted, but not required, to apply the overlay approach to qualifying financial assets (before the application of the forthcoming insurance contracts Standard) [ED para 20F];

   (d) the overlay approach should not have a fixed expiry date;

   (e) the temporary exemption should be effective for reporting periods beginning on or after 1 January 2018 [ED para 41I]; and

   (f) the overlay approach should be effective when an entity first applies IFRS 9 (other than the 'own credit' requirements in isolation) [ED para 41K].

Fixed expiry date for the temporary exemption

ED proposals

3. The ED proposed that an eligible entity would be permitted, but not required, to apply IAS 39 rather than IFRS 9 for annual reporting periods beginning before 1 January 2021 [ED para 20A].

[1] IFRS 4 will be superseded by the forthcoming insurance contracts Standard. Accordingly, the temporary exemption and the overlay approach will not be applicable when the entity first applies the forthcoming insurance contracts Standard. An entity must stop applying the temporary exemption at the earlier of the fixed expiry date and when it applies the forthcoming Standard.

4. The Basis for Conclusions on the ED (para BC77) noted that:

> The Exposure Draft proposes that entities should be prohibited from applying the temporary exemption from applying IFRS 9 for annual reporting periods beginning on or after 1 January 2021. The IASB believes that, even if the new insurance contracts Standard is not effective by that date, all entities should apply IFRS 9 by that date. This is because IFRS 9 represents a significant improvement to the accounting requirements for financial instruments. Hence, a temporary exemption from applying IFRS 9 is only acceptable if the period between the effective dates of IFRS 9 and the new insurance contracts Standard is short.

Feedback on ED proposals

5. Some supported a fixed expiry date of 2021.

   (a) A few supported the proposed fixed expiry date of 2021 based on the assumption that the Board could and should issue the forthcoming insurance contracts Standard so that it is effective on or before 2021. They implied that the Board should consider extending the fixed expiry date of the temporary exemption if the new Standard is further delayed for a reasonably short period.

   (b) A few (mostly regulators) supported the proposed expiry date even if the effective date of the forthcoming insurance contracts Standard is after 2021. They thought that it would be unacceptable for the temporary exemption to be extended, because doing so would

      (i) exacerbate the lack of comparability between entities applying the temporary exemption and entities that do not; and

      (ii) further delay the significant improvements in the reporting of financial instruments arising from IFRS 9.

6. Some, mostly preparers, did not support the proposed fixed expiry date because they believed that insurers should initially apply IFRS 9 and the forthcoming

insurance contracts Standard at the same time. They think that, if the forthcoming insurance contracts Standard is not effective by 2021, the concerns addressed by the temporary exemption will continue after that date. A few respondents (from Europe) noted that the Board intended to permit entities to use the overlay approach if the temporary exemption expires before the mandatory effective date of the insurance contracts Standard, but expressed the view that the overlay approach would not be sufficient to address their concerns.

Staff analysis and recommendation

7. The staff have taken into account the effective date of the forthcoming insurance contracts Standard when considering the appropriate fixed expiry date of the temporary exemption. The effective date of the forthcoming Standard depends primarily on two factors:

   (a) its publication date; and

   (b) the implementation period permitted.

8. In the 2013 Exposure Draft *Insurance Contracts*, the Board:

   (a) proposed that an entity could apply the requirements of the forthcoming Standard early; and

   (b) indicated that the implementation period of the requirements would be approximately three years after the date of publication of the requirements.

9. The Board is in the process of balloting the forthcoming insurance contracts Standard and expects to issue the Standard around the end of 2016. The Board will be asked to consider the effective date of that forthcoming Standard when drafting has sufficiently progressed.

10. If the forthcoming insurance contracts Standard is published around the end of 2016 and allows an implementation period of approximately three years, it would be effective for annual periods beginning on or after 1 January 2020. Thus, the temporary exemption would expire in 2020, one year before the proposed fixed expiry date of 2021. The temporary exemption would expire before the effective date of the forthcoming insurance contracts Standard only if the effective date of

the forthcoming Standard is for reporting periods beginning on or after 1 January 2022

11. At its March 2016 meeting, the Board confirmed the ED proposal that the temporary exemption should have a fixed expiry date that may not necessarily coincide with the effective date of the forthcoming insurance contracts Standard. The Board noted that a temporary exemption is acceptable only if the period between the effective dates of IFRS 9 and the new insurance contracts Standard is short.

12. Expectations on the publication and effective date of the forthcoming insurance contracts Standard have not changed since the ED was published. Accordingly, the staff recommend that the Board confirms the ED proposal that the fixed expiry date of the temporary exemption is 2021.

Question – fixed expiry date for temporary exemption in 2021	
1	Does the Board agree to confirm the ED proposal that an entity should be required to cease applying the temporary exemption no later than for annual reporting periods beginning on or after 1 January 2021?

Whether an entity should be allowed to stop applying the temporary exemption

13. The ED proposed that an entity that chose to apply the temporary exemption would be permitted to choose to apply IFRS 9 at the beginning of any subsequent annual reporting period [ED paragraph 20E].

14. Most respondents did not comment on this proposal. A few respondents did not support this proposal because they were concerned about an entity's comparability over time.

15. The staff recommend that the Board confirms the ED proposal that an entity that chose to apply the temporary exemption should be permitted to choose to apply IFRS 9 at the beginning of any subsequent annual reporting period. Staff do not think that it would be appropriate to prohibit an entity from applying IFRS 9, because IFRS 9 is an improvement compared to IAS 39. Staff note that permitting an entity to apply IFRS 9 in these circumstances:

(a) has little effect on comparability for an entity over time because the entity would eventually need to stop applying IAS 39 and begin to apply IFRS 9.

(b) is consistent with the Board's tentative decision on the overlay approach. At its April 2016 meeting, the Board tentatively decided that an entity that chose to apply the overlay approach could choose to stop applying the overlay approach at the beginning of any subsequent annual reporting period.

Question – permit an entity to stop applying the temporary exemption
2 Does the Board agree to confirm the ED proposal that an entity that previously elected to apply the temporary exemption from applying IFRS 9 may, at the beginning of any subsequent annual reporting period, choose to apply IFRS 9 rather than IAS 39?

Transition to IFRS 9 when an entity stops applying the temporary exemption

16. The ED proposed that when an entity ceases to apply the temporary exemption, that entity would apply IFRS 9 in subsequent annual periods, with the option to apply the overlay approach [ED paragraph 20F]. The entity might cease to apply the temporary exemption because it:

(a) chooses to do so (see paragraphs 13-15); or

(b) is required to do so, because the entity is no longer eligible for the temporary exemption (as discussed in Agenda Paper 14B *Reassessment of eligibility for the temporary exemption from applying IFRS 9*) or the temporary exemption has expired (as discussed above in paragraphs 3-12).

17. In addition, the ED confirmed that an entity ceasing to apply the temporary exemption would apply the relevant transition requirements in IFRS 9 when applying IFRS 9 for the first time [ED paragraph 20F]. This is because an entity ceasing to apply the temporary exemption is transitioning from IAS 39 to IFRS 9, in the same way as other entities that will apply IFRS 9 in 2018. This proposal

did not attract any comments from respondents and the staff recommend that the Board confirm it.

18. The staff also recommend the Board confirm the ED proposal that an entity that ceases to apply the temporary exemption before it applies the forthcoming insurance contracts Standard should have an option to apply the overlay approach. Paragraph 6 notes that there was limited demand for the overlay approach to be available after the temporary exemption expires, because entities did not think that the overlay approach would sufficiently address the concerns raised about the different effective dates of IFRS 9 and the forthcoming insurance contracts Standard. However, the staff note that the overlay approach provides additional information about the effects of moving from IAS 39 to IFRS 9. Accordingly, the staff do not think there is any compelling reason to prohibit an entity from applying the overlay approach in such circumstances.

Question – transition when an entity stops applying the temporary exemption

3 Does the Board agree to confirm the ED proposals that:

(a) an entity that chooses or is required to cease applying the temporary exemption from applying IFRS 9 should, on initial application of IFRS 9, use the relevant transition requirements in that IFRS; and

(b) an entity that ceases to apply the temporary exemption before the application of the forthcoming insurance contracts Standard should be permitted, but not required, to apply the overlay approach to qualifying financial assets.

Fixed expiry for the overlay approach

19. The ED did not propose a fixed expiry date for the overlay approach; instead, an entity would be required to stop applying the overlay approach when it first applies the forthcoming insurance contracts Standard.

20. Most respondents did not comment on this proposal. A few respondents recommended that the overlay approach should have a fixed expiry date because they would like all entities to be applying 'pure' IFRS 9 as soon as possible.

21. However, the overlay approach provides additional information about the effects of moving from IAS 39 to IFRS 9. In contrast, the temporary exemption has the result that an entity does not provide the improved IFRS 9 information, and thus can only be accepted for a short period of time. Accordingly, the staff thinks that the reasons for setting a fixed expiry date for the temporary exemption do not apply to the overlay approach.

Question – fixed expiry date for the overlay approach	
4	Does the Board agree to confirm the ED proposal that the overlay approach should **not** have a fixed expiry date?

Effective date of the proposed amendments to IFRS 4

22. The ED proposed that:

    (a) the temporary exemption would be effective for annual reporting periods beginning on or after 1 January 2018, which is the mandatory effective date of IFRS 9.

    (b) the overlay approach would be effective when an entity first applies IFRS 9 (other than the own credit requirements in isolation).

23. Respondents to the ED did not comment on these proposals.

24. The staff recommend that the Board confirm those proposals:

    (a) The temporary exemption is applicable only when an entity would otherwise be required to apply IFRS 9.

    (b) An entity is permitted to elect the overlay approach only when an entity first applies IFRS 9 (other than the own credit requirements in isolation).

In addition, the staff think that the recommended effective date allows sufficient time for both jurisdictions and preparers to prepare for the amendments. 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 Standards have sufficient time to prepare for the new requirements.

Question – effective date of the proposed amendments to IFRS 4
5 Does the Board agree to confirm the ED proposal that: (a) the temporary exemption should be effective for annual reporting periods beginning on or after 1 January 2018; and (b the overlay approach should be effective when an entity first applies IFRS 9 (other than the ‘own credit’ requirements in isolation)?