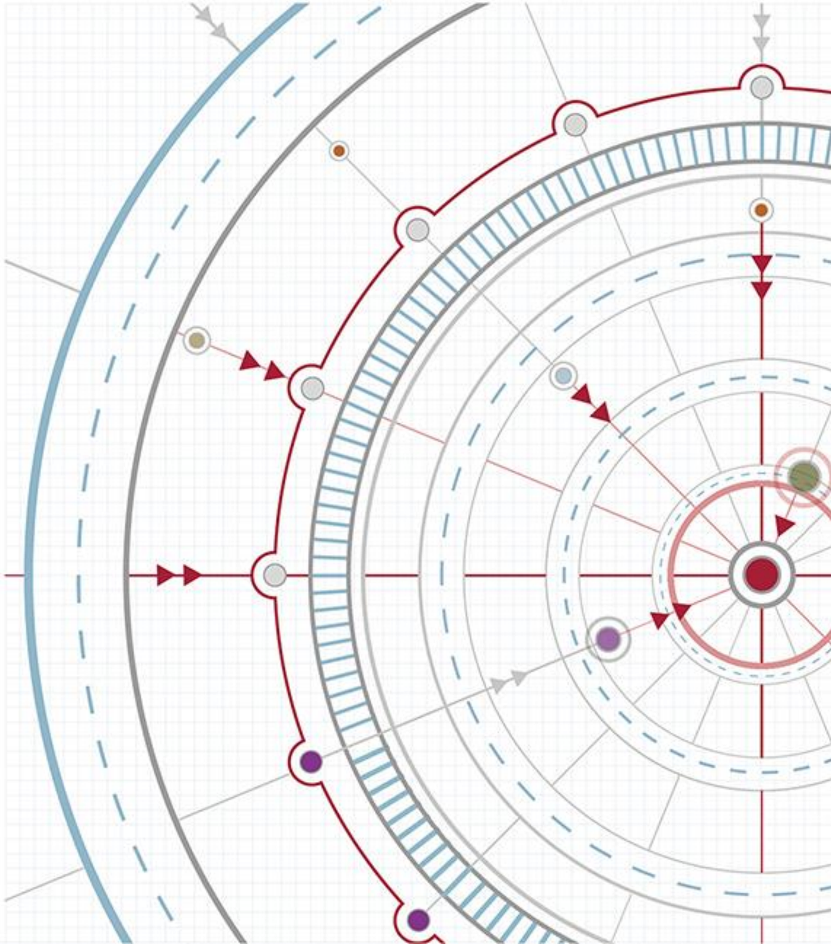


Application of the new accounting requirements for financial assets by insurers

August 2016

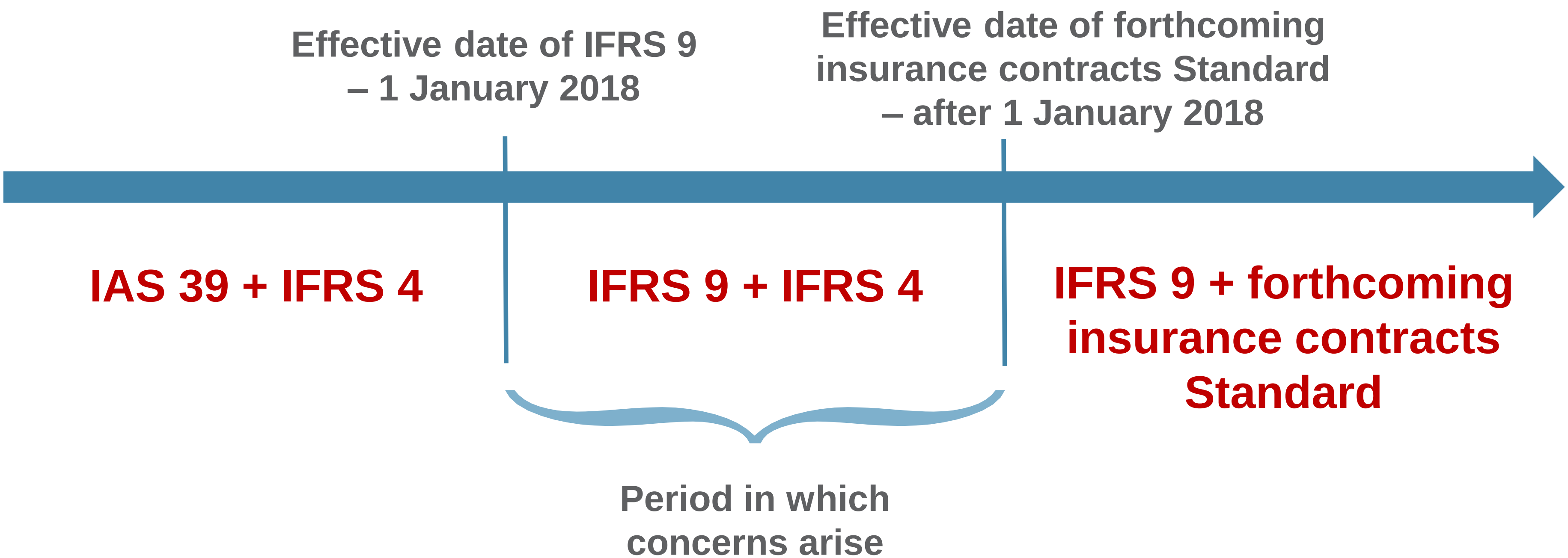
The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board (the Board) or IFRS Foundation.

Background

- IFRS 9 *Financial Instruments* effective from 1 January 2018
- Forthcoming insurance contracts Standard will be effective after 1 January 2018, the effective date of IFRS 9
- Some raised concerns about the gap in effective dates, such as additional accounting mismatches and volatility in profit or loss that may arise in this period
- Some suggested deferral of effective date of IFRS 9 for insurers and alignment with forthcoming insurance contracts Standard

⇨ The Board responded by expeditiously amending IFRS 4 to introduce overlay approach & temporary exemption—expected publication September 2016

Timeline



*IAS 39 *Financial Instruments: Recognition and Measurement* (pre-IFRS 9)
**IFRS 4 *Insurance Contracts* (existing accounting requirements for insurance contracts)

Overview of approaches

Concern	How the Board responded to address concerns
Temporary effects of applying IFRS 9 in conjunction with IFRS 4	• Confirm existing flexibility in IFRS 4 • Overlay approach (apply IFRS 9, but adjust profit or loss to remove volatility for designated assets) – available to all insurers • Temporary exemption – available to insurers whose activities are predominantly connected with insurance
Effects of applying IFRS 9 in conjunction with forthcoming insurance contracts Standard	• Transition relief to newly assess the classifications for financial assets under IFRS 9 on the date of initial application of forthcoming insurance contract Standard and other designations options (eg fair value option)

The overlay approach

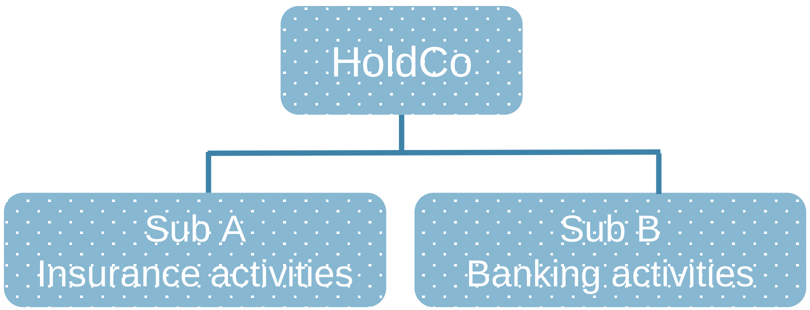
- IFRS 9 is applied in full
- Insurers reclassify between profit or loss and other comprehensive income
  - ➢ difference between amounts reported applying IFRS 9 and amounts that would have been reported applying IAS 39
  - ➢ for financial assets
    - – measured at fair value through profit or loss (FVPL) under IFRS 9 that were not measured at FVPL in their entirety under IAS 39, and
    - – unconnected with non-insurance activities
- Objective is to remove additional volatility from profit or loss in a transparent and consistent manner while maximising comparability

Statement of Comprehensive Income	
	20XX
Insurance contracts revenue	X
Incurred claims and expenses	(X)
Operating result	X
Investment income 'IFRS 9'	X
Interest on insurance liability	(X)
Overlay approach—adjustment	(X)
Investment result	X
Profit or loss	X
Overlay approach—adjustment	X
Effect of discount rate changes on insurance liability	(X)
Other comprehensive income	X
Total comprehensive income	X

Temporary exemption from IFRS 9: *Eligible at reporting entity level*

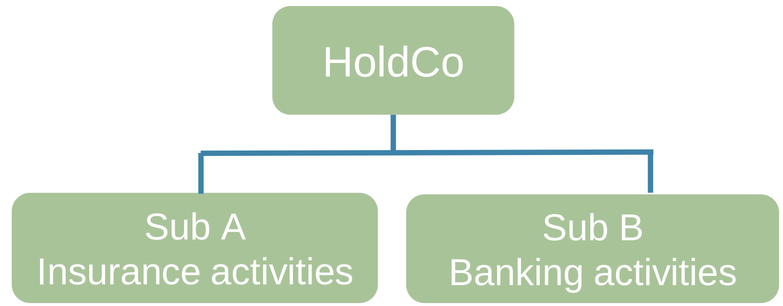
IFRS 9 IAS 39

- If the activities of the conglomerate are predominantly connected with insurance



- The conglomerate could <u>choose</u> to apply IAS 39 to all financial assets in consolidated financial statements
- However, if Subsidiary B publishes standalone IFRS financial statements it <u>must</u> apply IFRS 9

- If the activities of the conglomerate are NOT predominantly connected with insurance



- The conglomerate <u>must</u> apply IFRS 9 to all financial assets in consolidated financial statements
- However, if Subsidiary A publishes standalone IFRS financial statements it could <u>choose</u> to apply IAS 39

Feedback on Exposure Draft (ED)

ED December 2015	Feedback (from 96 comment letters & outreach)
Concerns about the two different effective dates	• Most, except users, think the Board should address those concerns.
Overlay approach	• Preferred by users. Others did not object to this approach.
Temporary exemption	• Most, except users, thought this is the only approach to address concerns.
- eligibility assessment	• Most think qualifying population too narrow. • Mixed view on assessment only at reporting entity level (but preferred by most users & regulators) vs below the reporting entity level (preferred by others).
- fixed expiry date	• Mixed views. Users and regulators support while preparers did not.
Whether the approaches should be optional	• Users concerned about three options (temporary exemption (IAS 39), IFRS 9 (overlay approach) or 'pure' IFRS 9). Others support.

The Board's decisions: overall

- Provide a temporary exemption
  - ➢ eligibility at the reporting entity level only
    - → consider all activities of the reporting entity
    - → apply IFRS 9 or IAS 39 in financial statements
  - ➢ with a fixed expiry date of 2021
  - ➢ modify qualification criteria
- Provide an overlay approach
- both approaches should be optional

The Board's decisions: temporary exemption

At reporting entity level	Below reporting entity level
• Only one Standard applied (IAS 39 OR IFRS 9) - IAS 39 is continuation of existing requirements - IFRS 9 is better information • User and regulator support • Focus on improving criteria to facilitate peer comparison (broadened eligibility)	• Two Standards applied (IAS 39 & IFRS 9) in the same entity • Two changes in a short period of time (IAS 39 → IAS 39 & IFRS 9 → IFRS 9) • More complex to apply for preparers • Can supplement with extra disclosures

⇨ The Board decided eligibility for temporary exemption at the reporting entity level

The Board's decisions: temporary exemption

- Modified qualifying criteria: activities *connected* with insurance. To qualify for the temporary exemption:
  - not previously applied IFRS 9 (other than the 'own credit requirements' in isolation)
  - significant IFRS 4 liabilities compared to total liabilities
  - predominance percentage (P*) > 90% or

    80% < P ≤ 90% + if no significant activity unconnected with insurance

$$* \; P = \frac{\text{Liabilities from contracts within the scope of IFRS 4} + \textit{Investment contracts at FVPL} + \textit{Other connected liabilities (eg tax)}}{\text{Total liabilities}}$$

(italics indicates changed from the ED)

- More insurers expected to qualify compared to the ED

The Board's decisions: additional exemptions

- Further exemptions provided:
  - allow an investor applying IFRS 9 (ie not temporary exemption) to retain, when applying the equity method, IAS 39 accounting used by its associate or joint venture applying the temporary exemption in investee's financial statements (or vice versa)
  - allow 'first time adopters' of IFRS Standards to apply temporary exemption and overlay approach

Effective date and transition

- Temporary exemption effective for annual periods beginning on or after 1 January 2018
- Overlay approach effective when an insurer first applies IFRS 9

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