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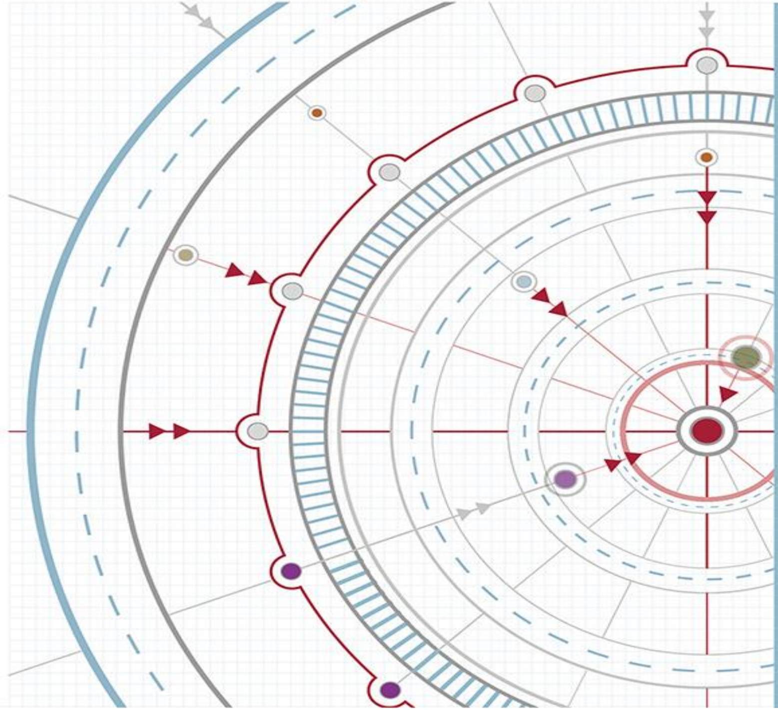

Application of the new accounting requirements for financial assets by insurers

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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

- Expect to finalise new insurance contracts Standard in 2016; not effective before 2020
- IFRS 9 *Financial Instruments* effective from 1 January 2018
- Some raised concerns about the gap in effective dates
  - two consecutive major accounting changes
  - additional volatility in profit or loss that could arise in this period
- Some suggested deferral of effective date of IFRS 9 for insurers and alignment with new insurance contracts Standard

⇨ The Board proposed overlay approach & deferral approach in Exposure Draft (December 2016)

Ways to address the concerns

Concern	How IASB proposes to address concerns
Temporary effects of applying IFRS 9 in conjunction with IFRS 4 (existing insurance contracts Standard)	1. Confirm existing flexibility in IFRS 4 **2. Overlay approach: IFRS 9 applied by all entities, but P&L adjusted to remove volatility for some assets – available to all entities that issue insurance contracts** **3. Deferral approach – available to narrow set of entities whose activities are predominantly related to insurance contracts.**
Effects of applying IFRS 9 in conjunction with the new insurance contracts Standard	4. Transition relief to newly assess the classifications for financial assets under IFRS 9 on the date of initial application of the new Insurance Contract Standard and other designations options (eg fair value option)

The Overlay Approach (OA)

- IFRS 9 applied by *all* entities from 1 January 2018
- Entities reclassify from P&L to OCI
  - difference between amounts recognised under IFRS 9 and amounts that would have been recognised under IAS 39
  - for financial assets
    - designated as related to insurance contracts, and
    - measured at FVPL under IFRS 9 that were not measured at FVPL under IAS 39
- Objective is to remove any increased volatility from P&L in a transparent and consistent manner while maximising comparability

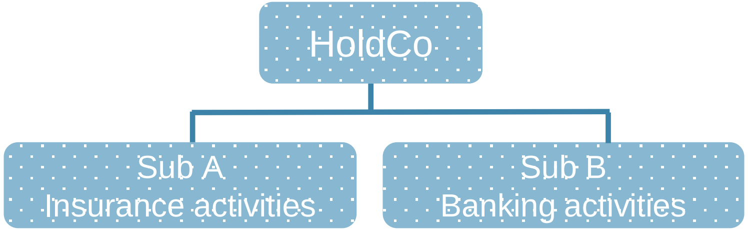
Statement of Comprehensive Income

	20XX
Insurance contracts revenue	X
Incurred claims and expenses	(X)
Operating result	**X**
Investment income 'IFRS 9'	X
Interest on insurance liability	(X)
OA—IFRS 9 'increased volatility adjustment'	(X)
Investment result	**X**
Profit or loss	**X**
OA—IFRS 9 'increased volatility adjustment'	X
Effect of discount rate changes on insurance liability	(X)
Total comprehensive income	**X**

The Deferral Approach:
Deferral at reporting entity level

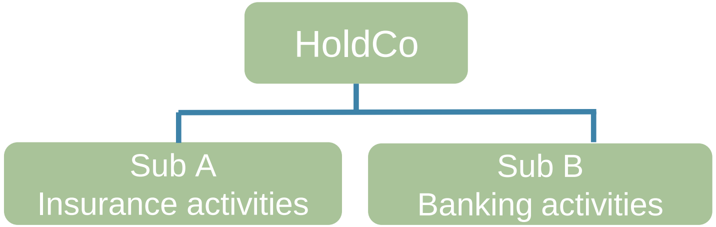
IFRS 9 IAS 39

- If the predominant activities of the conglomerate are related to insurance



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

- If the predominant activities of the conglomerate are NOT related to insurance



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

The Board's decisions: deferral

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 $\rightarrow$ IAS 39 & IFRS 9 $\rightarrow$ IFRS 9) • More complex to apply for preparers • Can supplement with extra disclosures

⇨ The Board decided eligibility for the deferral at the reporting entity level

The Board's decisions: deferral

- Modified qualifying criteria: insurance *related* activities
  - To qualify deferral:
    - ✓ Not previously applied IFRS 9 (other than the 'own credit requirements' in isolation)
    - ✓ Significant IFRS 4 liabilities compared to total liabilities
    - ✓ Predominance ratio (P*) > 90% or 80% < P ≤ 90% + if no significant activity unrelated to 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 entities expected to qualify compared to the ED

The Board's decisions: additional exemptions

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

Next steps

Applying IFRS 9 with IFRS 4

- At the May meeting, the Board directed staff to begin the balloting process (ie drafting the amendments)
- Final amendments to IFRS 4 expected September 2016

Insurance contracts

- Standard expected about the end of 2016
- The Board has indicated approximately three year implementation period

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