



Insurance

IFRS Newsletter

"Confirmation of an optional temporary exemption at the reporting entity level will allow 'pure' insurance entities to postpone application of IFRS 9."

– Joachim Kölschbach,
KPMG's global IFRS
insurance leader

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Direction set for IFRS 4 amendments

In December 2015, the IASB issued an exposure draft to address concerns about the differing effective dates of IFRS 9 *Financial Instruments* and the forthcoming insurance contracts standard. At its March meeting, the IASB considered the feedback received, and made key decisions that set the direction for its redeliberations and finalisation of the amendments.

Summary of feedback received

The IASB received 95 comment letters in response to the exposure draft, ED/2015/11 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)* (the ED). It also consulted users of financial statements through a separate outreach process.

Users of financial statements tended to favour the overlay approach (described on [page 2](#)), whereas preparers generally preferred the temporary exemption from IFRS 9. Both groups believed that the scope of the temporary exemption should be widened. Some preparers supported allowing the assessment and application of the temporary exemption below the reporting entity level, but users generally disagreed with this view.

Key decisions

The Board confirmed that both approaches would be retained as options and that the eligibility criteria for the temporary exemption would be assessed at the reporting entity level. It also agreed that there should be a fixed expiry date for the temporary exemption.

Next steps

The IASB will discuss the remaining technical issues in April and May. In particular, it will consider the eligibility criteria, additional disclosure requirements and the expiry date for a temporary exemption.

The final amendments to IFRS 4 are currently expected to be finalised in September 2016.

Summary of feedback received

The IASB received mixed feedback on its proposed approaches from users and preparers.

What's the issue?

The exposure draft (ED) aimed to address concerns raised by the insurance industry about the differing effective dates of IFRS 9 and the forthcoming insurance contracts standard. It included approaches allowing:

- a temporary exemption from applying IFRS 9 for certain entities that issue contracts in the scope of IFRS 4; and
- exclusion from profit or loss of the difference between the amounts recognised under IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement* for specified assets relating to insurance activities (overlay approach).¹

The IASB received 95 comment letters from various types of constituents, including preparers and regulatory bodies, and conducted further outreach with users of financial statements to supplement that from 2015.² This month, the staff analysed the feedback, to inform the IASB's redeliberations on the ED.

What feedback was received?

Feedback from respondents

The key highlights of feedback from respondents, not including users of financial statements, are summarised below.

Topic	Views
Which approach, if either, preparers would choose – i.e. overlay approach or temporary exemption	<ul style="list-style-type: none">– Most respondents agreed that both the overlay approach and the temporary exemption should be available because each could be used in different circumstances. However:<ul style="list-style-type: none">– most preparers said that the temporary exemption would be their preferred option; and– some said they do not intend to use either option – e.g. insurers that are part of larger financial conglomerates with significant non-insurance activities or entities that value all of their financial assets at fair value through profit or loss (FVTPL).
At what level the temporary exemption should apply – i.e. at or below the reporting entity level	<ul style="list-style-type: none">– Most regulators supported an assessment at the reporting entity level.– Although most preparers, national standard setters, and accounting bodies also supported the proposals, they believed that an alternative assessment was necessary for financial conglomerates.

1. For more information, see our [IFRS 4 – Insurance Amendments](#) topic page.
2. The IASB conducted outreach in August and September 2015 and discussed the results in its September 2015 meeting. The outreach with users focused on understanding their views on the differing effective dates of IFRS 9 and the forthcoming insurance contracts standard. For more information, see [Issue 48](#) of our *IFRS Newsletter: Insurance*.

Topic	Views
How an entity should determine whether it is permitted to use the temporary exemption (predominance assessment)	<ul style="list-style-type: none"> Nearly all believed that the population of entities that would qualify for the temporary exemption is too narrow. However, there were mixed views on how to broaden the approach.
Whether there should be a fixed expiry date for the temporary exemption	<ul style="list-style-type: none"> Most preparers did not support an expiry date because they believed that they should be required to apply IFRS 9 only when they apply the forthcoming insurance contracts standard for the first time, for which the application date is still not determined. Most regulators supported the proposed expiry date because extending the temporary exemption would further impair comparability between entities.

Feedback from users

Compared with its previous outreach in August and September 2015, the IASB spoke to more users of financial statements who follow financial conglomerates and entities with non-insurance activities. The key highlights of their feedback were as follows.

- There were mixed views on whether the differing effective dates of IFRS 9 and the forthcoming insurance contracts standard would make the financial statements of entities that issue insurance contracts less understandable.
- Many users expressed the view that any increased volatility in the transition period would not make their analysis more difficult. However, others believed that the increased volatility would make the insurance industry appear more uncertain and less attractive for investment.
- Many believed that providing two approaches, and making them optional, would decrease comparability. Some suggested that no solution is necessary.
- Most users preferred the overlay approach; many did not support the temporary exemption from applying IFRS 9.
- If a deferral were permitted, then most users:
 - supported an assessment at the reporting entity level;
 - suggested that eligibility be more broad to capture entities that are considered to be within the insurance sector; and
 - supported an expiry date as proposed by the IASB.

Key decisions on redeliberations

The IASB set the direction for its redeliberation of the proposed amendments to IFRS 4.

What's the issue?

Based on the feedback received from constituents, the staff identified the following key areas of the proposed amendments to be analysed and evaluated further by the IASB.

Topic	Staff analysis and proposed approach
Should the overlay approach be confirmed?	<ul style="list-style-type: none">– The staff suggested that the overlay approach should be available to those companies that do not qualify for or do not apply the temporary exemption.
Should the temporary exemption be confirmed?	<ul style="list-style-type: none">– The staff did not believe that the temporary exemption would significantly reduce the costs for entities that would implement the two standards at different dates.– However, they recognised that this is the preparers' preferred option and, as such, the staff suggested that the temporary exemption should be retained for certain entities.
At what level should the temporary exemption be assessed and applied?	<ul style="list-style-type: none">– The staff supported most users' view that eligibility for the temporary exemption should be assessed at the reporting entity level, because they believed that companies should have consistent reporting policies to produce meaningful information for users. They also did not believe that the level of application of the option should be lower, because IAS 39 and IFRS 9 have significantly different classification and impairment models and should not be applied simultaneously by one entity.– They believed that an assessment at the reporting entity level would address the concerns about the differing effective dates of IFRS 9 and the forthcoming insurance contracts standard in a pragmatic way, considering that the temporary exemption is expected to be effective for only a short period of time.
Are the qualifying criteria for the temporary exemption appropriate?	<ul style="list-style-type: none">– The staff agreed with nearly all respondents that the ED may not have appropriately captured the population of entities that are considered 'insurers'.– Consequently, they intend to consider at future meetings whether revisions to the ED's proposed eligibility criteria for the temporary exemption are necessary. This will include an analysis of whether the eligibility conditions should consider the impact of investment contracts accounted for at FVTPL.
Should the expiry date for the temporary exemption be a fixed date?	<ul style="list-style-type: none">– The staff supported most users, who thought that a defined date for expiry of the temporary exemption is needed.– They will, however, consider further whether 2021 (the proposed date) is an appropriate choice.

Topic	Staff analysis and proposed approach
Should both approaches be optional?	<ul style="list-style-type: none"> – The staff acknowledged users' concern that multiple options would reduce comparability. – However, they believed that it can be addressed in a different way – i.e. with additional disclosures and by improving the eligibility criteria for the temporary exemption. The staff will consider these measures at future meetings.

What did the staff recommend?

The staff recommended that the IASB confirm the proposal that:

- there should be a temporary exemption and an overlay approach; and
- both approaches should be optional.

In addition, the staff recommended in relation to the temporary exception approach that:

- eligibility should be assessed at the reporting entity level; and
- a fixed expiry date should exist.

What did the IASB discuss?

The majority of Board members supported the staff recommendations.

Most supported allowing a temporary exemption because it would provide additional flexibility and alternatives to insurers to address the potential costs of implementing two significant accounting changes over the coming years. Those who did not support allowing a temporary exemption thought that sufficient alternatives already existed. They also believed that allowing a temporary exemption would not reduce the costs of implementing two standards at different dates but, rather, would defer some costs to a later time. They also believed that the benefits of more useful information under IFRS 9 outweigh any possible additional implementation costs.

Most Board members also supported an eligibility assessment for the temporary exemption at the reporting entity level. They believed that presenting financial statements with some assets under IFRS 9 and other assets under IAS 39 would result in inconsistency and confusion on the part of users.

What did the IASB decide?

The IASB agreed with the staff recommendations.

KPMG insight

Given the IASB's confirmation that eligibility for the temporary exemption would be assessed at the reporting entity level, many companies with insurance and non-insurance activities – e.g. conglomerates with insurance and significant banking activities – may have to apply IFRS 9, with or without the overlay approach, from 2018, even if their insurance activities are significant.

Separate reporting units could make their temporary exemption assessment and decision independently from their parent company. They would, however, have to follow the parent's accounting policy for consolidation purposes. In practice, reporting units may prefer to apply consistent accounting for both solo and group reporting, because the costs of applying two different standards may not outweigh the benefits of deferring IFRS 9 at the reporting unit level only.

The IASB will consider adjusting the eligibility criteria for the temporary exemption, which may result in more insurers being able to benefit from the temporary exemption. It remains unclear whether the IASB will revise its proposals to consider investment contracts without significant insurance risk that are issued by many life insurers.

Project milestones and timeline

Interaction with IFRS 9

The insurance industry raised significant concerns about the differing effective dates of the two standards – 2018 for IFRS 9 and 2020 or 2021 for the forthcoming insurance contracts standard. These included potential temporary increases in accounting mismatches and volatility in profit or loss and other comprehensive income (OCI) created by the change in classification of financial assets, having two consecutive major accounting changes in a short period and having to apply the IFRS 9 classification and measurement requirements before the adoption of the forthcoming insurance contracts standard. These consequences could result in added costs and complexity for both preparers and users of insurers' financial statements.

In December 2015, the IASB proposed amendments to IFRS 4, to address these concerns. It asked for comments on its proposals by 8 February 2016, and started redeliberations in March 2016.

For further information and analysis of this exposure draft (including our [New on the Horizon](#) and [SlideShare presentation](#)), visit our [Insurance topic page](#).

For further information on the decisions taken during the IASB's redeliberations on the forthcoming insurance contracts standard, see [Issue 51](#) of our *IFRS Newsletter: Insurance*.



Our suite of publications considers the different aspects of the project.

 KPMG publications
1 IFRS Newsletter: Insurance (issued after IASB deliberations)
2 New on the Horizon: Insurance contracts (July 2013)
3 Challenges posed to insurers by IFRS 9's classification and measurement requirements
4 Evolving Insurance Regulation: The journey begins (March 2015)

For more information on the project, including our publications on the IASB's insurance proposals, see [our website](#).

The [IASB's website](#) contains summaries of the Boards' meetings, meeting materials, project summaries and status updates.

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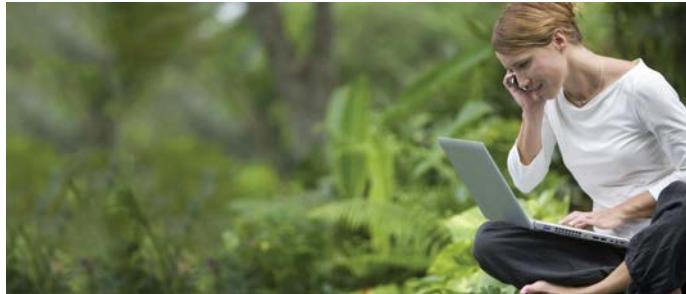
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***IFRS Newsletter: Insurance is
KPMG's update on accounting
and reporting developments in
the insurance sector.***

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