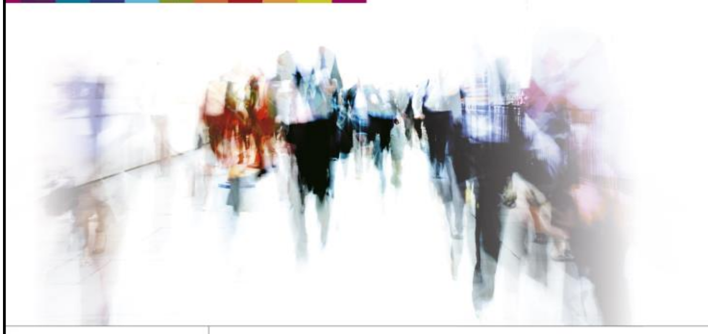

EFRAG

European Financial Reporting Advisory Group

EFRAG Board

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

13 May 2016 – Paper 04.01

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Introduction

- IASB published ED/2015/11 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* in December 2015
- The ED proposed two approaches to address concerns about the different effective dates of IFRS 9 and the new insurance contracts standard
  - Overlay approach
  - Temporary exemption from applying IFRS 9 (Deferral approach)
- EFRAG's comment letter was issued in February 2016
- The following slides compare EFRAG's position and the IASB's tentative decisions during redeliberation

Overview

EFRAG's position compared to IASB on…

Topic	EFRAG's position	IASB
Two alternative solutions - Optionality	Both Overlay and Deferral approaches should be available and be optional	✓
Overlay approach: eligibility criteria	Support ED proposals, add examples	✓
Overlay approach: presentation	Reduce flexibility in presentation	✓
Deferral approach: predominance criterion	Widen predominance criterion; increase threshold	✓
Deferral approach: regulated entity criterion	Add "being regulated" as an eligibility criterion	X
Deferral approach: application level	Allow deferral at or below reporting entity level	X
First-time adopters of IFRS	Allow both options to specific first-time adopters	
Deferral approach: expiry date	Overlay approach not to be used as a backstop if the new insurance contracts standard is delayed.	

Detailed comparison

Having two alternative solutions - Optionality

Topic	EFRAG's position	IASB Board's tentative decisions	EFRAG's request met?
Effects of different effective dates IFRS 9 and new insurance contracts Standard	Support for addressing the concerns. It was appreciated that the IASB proposed two options to deal with the concerns.	In March 2016, the IASB tentatively confirmed the ED proposal to provide both a Deferral and an Overlay approach.	Yes
Proposing both an Overlay approach and a Deferral approach	Supported having both the Overlay approach and the Deferral as complementary approaches.		Yes
Whether the Overlay approach and the Deferral approach should be optional	Both approaches should be optional due to the diversity of circumstances encountered by entities issuing insurance contracts	In March 2016, the IASB tentatively confirmed the ED proposal that both approaches should be options	Yes

Overlay approach

Topic	EFRAG's position	IASB Board's tentative decisions	EFRAG's request met?
Eligibility criterion	Support for the eligibility criterion as proposed in the ED Criterion should be enhanced with detailed examples.	In April 2016, the IASB Board tentatively confirmed the ED proposals relating to the eligibility criterion.	Yes, with respect to the criterion. Detailed examples will not be provided.
Presentation of overlay effect	Flexibility of presentation should be reduced. Presentation based on IFRS 9 proposed.	In April 2016, the IASB tentatively decided to amend the ED proposals to require that profit or loss be based on IFRS 9 with a one line presentation of the overlay effect.	Yes
Cost concerns relating to the Overlay approach	Concerns raised about the practical applicability of the overlay approach due to the expected supplementary costs.	In March 2016, the IASB tentatively confirmed the ED proposal that the Overlay approach should be optional, resulting in application only by entities that do not consider the costs to be excessive	Yes

Deferral approach

	EFRAG's position	IASB Board's tentative decisions	EFRAG's request met?
Eligibility	No support for the restrictive ED proposals. A significant amount of insurance contracts within the scope of IFRS 4 was considered necessary for the application of the Deferral approach.	In April 2016, the IASB tentatively decided to make the ED proposals less restrictive, i.e., an entity may apply the Deferral approach if the entity's activities are predominantly 'related to insurance'.	Yes. EFRAG's proposed that one criterion should be that an entity's activities are predominantly 'related to insurance'.

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Deferral approach (continued)

	EFRAG's position	IASB Board's tentative decisions	EFRAG's request met?
Predominance criterion	The predominance criterion should be widened and the threshold should be increased to avoid the inclusion of banking activities that are material at the reporting entity level.	In April 2016, the IASB tentatively decided to significantly widen the ED's predominance criterion so that most entities considered to be insurers are likely to qualify for the deferral. The predominance threshold is passed if (i) greater than 90% (entity is automatically eligible for the Deferral approach) or (ii) between 80% and 90% and the entity can demonstrate that it has no significant non-insurance activity.	Yes
Regulated entity criterion	The regulated entity criterion would allow an entity that is supervised by an insurance regulator should be eligible to apply the Deferral approach.	In April 2016, the IASB tentatively decided that eligibility for the Deferral approach should be based on the predominance criterion alone.	No

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Deferral approach (continued)

	EFRAG's position	IASB Board's tentative decisions	EFRAG's request met?
At or below reporting entity level	The Deferral approach should be applicable either at or below the reporting entity level. As a minimum, the deferral should be available below the mixed group reporting entity level to an entity that meets the reporting entity definition in accordance with the *Conceptual Framework for Financial Reporting ED*.	In March 2016, the IASB Board tentatively confirmed the ED proposal that the eligibility for the deferral should be determined at the reporting entity level. IASB Staff noted that conglomerates can (i) rely on the Overlay approach to address potential volatility and (ii) rely on the Deferral approach at subsidiary level when insurance activities are held in a distinct reporting entity.	No

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First-time adopters of IFRS

	EFRAG's position	IASB Board's tentative decisions	EFRAG's request met?
Availability of Overlay approach and Deferral approach for first-time adopters of IFRS	First-time adopters of IFRS should have an option to apply the Overlay approach or the Deferral approach only if they prepared a reporting package in accordance with IFRSs for consolidation purposes.	The IASB Board will discuss this issue in May 2016.	To be determined after the IASB's deliberations.

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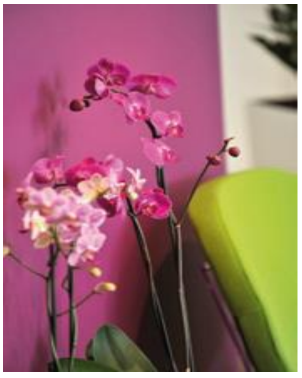
Expiry date

		EFRAG's position	IASB's tentative decisions	EFRAG's request met?
	Expiry date	Support for the deferral to have an expiry date of 1 January 2021 or earlier because the new insurance contracts Standard is expected to be finalised as soon as possible.	In March 2016, the IASB tentatively confirmed that there should be a fixed expiry date for the Deferral approach. In May, the IASB will discuss the specific date.	In principle, yes Exact timing to be determined.
		The Overlay approach should not be considered a backstop in case of a delay in the finalisation of the new insurance contracts Standard.	In May, the IASB will consider whether there should be a fixed expiry date for the overlay approach.	To be determined after the IASB's deliberations

Next steps

The IASB aims:

- To complete deliberations in May 2016;
- To issue the IFRS 4 amendments in September 2016.



Thank you for your attention!

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