

EFRAG SECRETARIAT PAPER FOR PUBLIC MEETING

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EFRAG's draft endorsement advice on *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts: Amendments to IFRS 4*
Cover Note

Objective

- 1 The objective of this session is to discuss and approve the draft endorsement advice on *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts: Amendments to IFRS 4* ('The Amendments').

Background/introduction

- 2 The Amendments are designed to address the concerns of insurance companies and users of their financial statements about the different effective dates of IFRS 9 and the forthcoming insurance contracts Standard. As a result two approaches have been introduced in the Amendments – the temporary exemption from IFRS 9 and the overlay approach.
- 3 The temporary exemption from IFRS 9 will be available for annual reporting periods beginning on or after 1 January 2018 and ends no later than for annual reporting periods beginning on or after 1 January 2021.
- 4 The overlay approach may only be first applied when an entity first applies IFRS 9 (other than the "own credit" requirements in isolation) and this approach does not have a fixed expiry date.

EFRAG TEG discussion and advice to the EFRAG Board

- 5 EFRAG TEG had discussions on the Amendments at its June and October meetings.
- 6 At its June meeting, before the Amendments were published, EFRAG TEG members made a number of suggestions to clarify the drafting of the draft endorsement advice, including:
 - (a) the need to consider the 'bigger picture' and not to imply that entities with insurance activities that apply IFRS 9 would not provide relevant information;
 - (b) to indicate the issue relating to financial conglomerates and the level playing field in the insurance sector; and
 - (c) focussing on the comparability section including assessing comparability between insurance entities and other entities such as banks.
- 7 In October 2016, EFRAG TEG members discussed the draft endorsement advice and certain changes were suggested, including:

- (a) indicating that 20-25% of the insurance business may not be able to defer IFRS 9; and
- (b) highlighting that EFRAG assesses the endorsement criteria based on the Amendments as issued. Therefore, as a result, conclusions reached in the endorsement process may be different from those reached in EFRAG's comment letter.

EFRAG TEG advice to the EFRAG Board

- 8 Overall, EFRAG TEG advises the EFRAG Board to approve the draft endorsement advice on the Amendments.
- (a) 10 EFRAG TEG members voted in favour of recommending the endorsement advice to the EFRAG Board;
 - (b) Two EFRAG TEG members voted against; and
 - (c) Four EFRAG TEG members were not present at the meeting.

Question for EFRAG Board

- 9 Do EFRAG Board members approve the draft endorsement advice and the invitation to comment as recommended by EFRAG TEG?

Agenda papers

- 10 In addition to this paper, the agenda papers for this session are:
- (a) Agenda paper 07-02 – EFRAG's draft endorsement advice;
 - (b) Agenda paper 07-03 – Invitation to comment;
 - (c) Agenda paper 07-04 – EC request for advice – for background; and
 - (d) Agenda paper 07-05 – Published Amendments – for background.