Issue 54, May 2016

KPMG

Insurance
IFRS Newsletter

"The Board finished its redeliberations of the amendments to IFRS 4 and expects to issue them in September."

– Joachim Kölschbach, KPMG's global IFRS insurance leader

IFRS 4 amendments set for balloting

At its May meeting, the IASB finished discussing its exposure draft *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (the ED).

Temporary exemption – Eligibility reassessment criteria

The IASB agreed that an entity that applies the temporary exemption and subsequently ceases to be eligible for it would be required to apply IFRS 9 in the second annual reporting period that begins after the change in eligibility.[1] It also agreed to permit entities that are not eligible for the temporary exemption at the initial assessment date to reassess their eligibility before the mandatory effective date of IFRS 9 if there is a demonstrable change in their corporate structure that could result in a change in the predominant activities of the entity.

Other target areas

The IASB confirmed that it would permit first-time adopters of IFRS to apply the temporary exemption and the overlay approach if they meet the eligibility requirements and qualifying criteria.

It also provided relief for investors in associates and joint ventures when using the equity method of accounting from the requirement to apply uniform accounting policies if either investor or investee applies the temporary exemption, but the other does not. The Board also confirmed a fixed expiry date for the temporary exemption of 1 January 2021.

Next steps

The Board granted the staff permission to begin the balloting process. The final amendments to IFRS 4 are expected to be published in September 2016.

Meanwhile, the Board is continuing its balloting process for the forthcoming insurance contracts standard and expects to issue it around the end of 2016.

Contents

1. Only relevant as long as the second annual reporting period is earlier than the one that begins on or after the fixed expiry date of the temporary exemption.

Temporary exemption

The IASB revised the date at which entities would have to apply IFRS 9 if they cease to be eligible for the exemption.

Eligibility reassessment criteria

What's the issue?

The ED proposed that subsequent to initial assessment for the temporary exemption from applying IFRS 9, an entity would be required to reassess its eligibility if there is a demonstrable change in the entity's corporate structure. It also proposed that if, as a result of the reassessment, the entity is no longer eligible for the temporary exemption, then it would apply IFRS 9 from the beginning of its next annual reporting period.[2]

Feedback from respondents did not support these proposals, because they did not believe there would be enough time to apply IFRS 9 from the beginning of the next annual reporting period immediately after the entity determines that it no longer qualifies for the temporary exemption from applying IFRS 9.

What did the staff recommend?

The staff recommended the following.

Recommendation	Rationale
Eligibility reassessment criteria (when an entity is already eligible and applies the temporary exemption)	
Confirm the ED proposals that an entity:[3] – should reassess whether its activities are still predominantly related to insurance if, and only if, there has been a demonstrable change in the corporate structure that could result in a change in the predominant activities of the entity; and – re-compute the predominance ratio using the carrying amounts of the liabilities at the annual reporting date immediately following the change in corporate structure.[4]	– The staff believed that these proposals properly identify those circumstances in which the entity's activities are no longer predominately related to insurance without requiring the entity to incur the costs and effort to assess its eligibility on an annual basis.

2. For more information, see our New on the Horizon: Insurance amendments.
3. To read the specific wording recommended for confirmation by the staff, see the ED.
4. The re-computation of the predominance ratio would apply in the event of any demonstrable change in the entity's corporate structure that occurs subsequent to the initial assessment date (i.e. annual reporting date between 1 April 2015 and 31 March 2016).

Recommendation	Rationale
When an entity's activities are no longer predominantly related to insurance, the entity should be required to apply IFRS 9 from the earlier of: – its second annual reporting period that begins after that change in corporate structure; and – its annual reporting period that begins on or after the fixed expiry date of the temporary exemption.	– The staff did not believe that it would take three years from the reassessment date for an entity to implement IFRS 9 because it was issued in July 2014 and significant progress has been made in terms of market understanding since the standard was issued. – The staff also recognised that an entity may not have enough time to prepare if it were required to implement IFRS 9 immediately after determining that it no longer qualifies for the temporary exemption.
When an entity's activities are no longer predominantly related to insurance, the entity should disclose in the annual reporting periods before it applies IFRS 9: – the fact that it is no longer eligible to apply the temporary exemption and why; and – the date on which the change in corporate structure occurred.	– The staff believed that the proposed disclosures would help users to understand the change in corporate structure. – However, given the delay in implementing IFRS 9 (see recommendation above), the staff believed that these disclosures should be required immediately after the change in corporate structure takes place (i.e. for all annual reporting periods after the change takes place until the entity applies IFRS 9).

Recommendation	Rationale
Eligibility reassessment criteria (when an entity was not previously eligible for the temporary exemption)	
An entity that was not previously eligible for the temporary exemption should be permitted to reassess its eligibility before the mandatory effective date of IFRS 9 (1 January 2018) if there is a demonstrable change in its corporate structure before 2018 that could result in a change in the predominant activities of the entity. The computation of the predominance ratio should use the carrying amounts of the liabilities at the annual reporting date immediately following the demonstrable change in corporate structure.[5]	– Given the Board's decision in April 2016 to require an initial eligibility assessment at the annual reporting date between 1 April 2015 and 31 March 2016, an entity may not meet the eligibility requirements for the approach at that date but may meet them before the mandatory effective date of IFRS 9. – The staff believed that entities that experience a demonstrable change in their corporate structure between these two periods should be permitted to apply the temporary exemption if they have not previously applied IFRS 9.
An entity that becomes eligible for the temporary exemption should explain how it concluded that it is eligible and disclose: – the reason for the reassessment; – an explanation of the change in its predominant activities; and – the date on which the change in corporate structure occurred that made it eligible.	– The staff believed that it is important that the rationale for the change in eligibility is transparent to the users of financial statements.
When to reassess eligibility	
A demonstrable change in the entity's corporate structure that could result in a change in the entity's predominant activities would have to be significant to its operations and demonstrable to external parties.	– Based on feedback from a few stakeholders, the staff believed that they should clarify how an entity can identify a demonstrable change in corporate structure. – This guidance is consistent with that provided in IFRS 9 on the reclassification of financial assets as a result of a change in business model.

5. The re-computation of the predominance ratio would apply in the event of any demonstrable change in the entity's corporate structure that occurs subsequent to the initial assessment date (i.e. annual reporting date between 1 April 2015 and 31 March 2016).

What did the IASB discuss?

One Board member expressed the need to articulate carefully in the final amendments that the reassessment would be made after the change in corporate structure has happened, not when the intention or commitment to a change in corporate structure occurs.

In response to a question from a Board member, the staff noted that they will consider adding an example to the final amendments of a change in corporate structure that would not result in a change in the predominant activities.

What did the IASB decide?

The IASB agreed with the staff recommendations.

KPMG insight

The decision to allow entities that become ineligible for the temporary exemption a grace period of one year between the reassessment date and the date at which they have to apply IFRS 9 would give them additional time to plan their implementation. However, for some entities implementing IFRS 9, a year may not be long enough. It is therefore critical that entities that are considering significant acquisitions, disposals or similar restructurings plan ahead.

Entities should be proactive in forecasting whether any strategic business decisions (e.g. corporate structure activities) could impact their ability to apply the temporary exemption. Those that foresee that it is reasonably likely that corporate structure changes may impact their predominant activities should consider developing pro forma financial balances to develop probabilities and sensitivities of how such changes would affect their ability to apply the temporary exemption. They should then use these results to help them develop a forward-looking plan for implementing IFRS 9.

Other target areas

The IASB agreed that a first-time adopter of IFRS would be permitted to apply the temporary exemption or overlay approach.

First-time adopters of IFRS

What's the issue?

The ED proposed that first-time adopters of IFRS[6] would be prohibited from applying both the temporary exemption and the overlay approach.[7]

Some respondents did not support this proposal, because they believed that some of the concerns that the amendments are designed to address could also apply to first-time adopters. Specifically, they noted that a first-time adopter may currently:

- present financial information in its financial statements applying a national GAAP that is similar to IFRS; or
- report IFRS financial information for consolidation purposes to a group that already reports under IFRS.

In both instances, a first-time adopter would have reporting systems, internal processes and procedures and management policies in place to prepare financial information under or similar to IAS 39 *Financial Instruments: Recognition and Measurement*.

What did the staff recommend?

Based on the feedback received, the staff recommended the following changes to the proposals in the ED.

Recommendation	Rationale
Temporary exemption	
A first-time adopter should be permitted to apply the temporary exemption if it meets the qualifying criteria. When assessing the qualifying criteria on the initial date of assessment (i.e. annual reporting date between 1 April 2015 and 31 March 2016), the first-time adopter should use the carrying amounts of liabilities applying applicable IFRS standards.	– The staff acknowledged that there are some first-time adopters that have the same concerns as entities that have already adopted IFRS. Accordingly, they believed that these first-time adopters should be permitted to apply the temporary exemption. – However, a first-time adopter would not previously have presented financial statements applying IFRS standards – therefore, the staff believed that a first-time adopter should be required to use the carrying amounts of liabilities as if the entity presented a balance sheet applying IFRS on the date of the assessment.

6. An entity that presents its first set of IFRS financial statements during reporting periods that end after 1 January 2018. Those that apply IFRS for the first time before 2018 were not considered during the Board's discussion, because they would already be permitted to use both approaches, if they are eligible for them.
7. For more information, see our New on the Horizon: Insurance amendments.

Recommendation	Rationale
	– The staff believed that this recommendation would limit the temporary exemption to first-time adopters that already have internal reporting systems that apply IFRS or are not significantly different from IFRS.
Overlay approach	
A first-time adopter should be permitted to apply the overlay approach to qualifying assets. A first-time adopter that applies the overlay approach should be required to restate comparative information to reflect the overlay approach when it restates comparative information in accordance with IFRS 1 *First-time Adoption of International Financial Standards*.	– The staff recommended also making the overlay approach available to first-time adopters due to the feedback from respondents. – They also believed that only first-time adopters that have presented financial statements applying requirements that are not significantly different from IAS 39 would be interested in applying the approach. Otherwise, significant cost and effort would be required. – The staff's restatement recommendation maintains consistency with the IFRS 1 short-term relief from applying IFRS 9 in comparative periods.

What did the IASB discuss?

One Board member said that the final amendments should make it clear that if a first-time adopter applies either the temporary exemption or the overlay approach, then it would still have to adopt IFRS on the date of initial application, which means that it would have to apply IAS 39 on the date of initial adoption (in addition to the temporary exemption or overlay approach), regardless of how different its national GAAP is from IFRS.

What did the IASB decide?

The IASB agreed with the staff recommendations.

The IASB provided relief for investors in associates and joint ventures from the requirement to use uniform accounting policies.

Relief for investors in associates and joint ventures

What's the issue?

Paragraphs 35–36 of IAS 28 *Investment in Associates and Joint Ventures* require an entity to adjust an associate's or joint venture's accounting policies to make them conform to its own accounting policies when the entity applies the equity method. Consequently, if an investee applies the temporary exemption in its financial statements but the investor does not, then the investor would be required to apply IFRS 9 to that investee's financial statements before applying the equity method (or vice versa).

A few respondents asked the Board to provide relief from this requirement so that an investor could retain the financial instruments accounting applied by an investee.

What did the staff recommend?

The staff noted that the Board's decision to determine eligibility for the temporary exemption at the reporting entity level is consistent with the eligibility for the exception from consolidation for investment entities in IFRS 10 *Consolidated Financial Statements* and with the requirement in IFRS 10 to apply uniform accounting policies.

However, the staff also noted that:

- an investor could experience significant practical difficulties and/or additional costs in obtaining the information needed to apply IFRS 9 or unwind the application of IFRS 9 in the financial statements of an investee; and
- relief exists for non-investment entity investors with investees that are investment entities.

The staff therefore concluded that the practical difficulties and potential additional costs of obtaining the information needed would be likely to outweigh the benefits, and that the resulting loss of consistency in accounting policies could be mitigated by requiring suitable disclosures.

The staff therefore recommended the following relief.

An investor that applies…	… should be permitted (but not required) to…
IFRS 9 (with or without overlay adjustment)	Retain the IAS 39 accounting used by any associate or joint venture that applies the temporary exemption in its financial statements.
The temporary exemption	Retain the IFRS 9 accounting (with or without the overlay adjustment) used by any associate or joint venture in its financial statements.

The relief would apply on an investment-by-investment basis, because preventing an investor from using the IFRS 9 information that is available for some of its investees could reduce the quality of information provided to users of the investor's financial statements. An investor that chooses to apply IFRS 9 in using the equity method to account for an investee cannot later choose to apply IAS 39 in subsequent reporting periods.

In addition, the staff proposed that the investor reproduce certain of its investee's disclosures (if the investee has applied either the temporary exemption or the overlay approach):

- if they are individually material to the investor's financial statements, including:
  - the disclosures applicable to entities applying the temporary exemption or overlay approach for each investee for which the temporary exemption or overlay approach, respectively, has been applied in the financial statements used by the investor to apply the equity method for that investee; and
- if they are individually immaterial but material in aggregate to the investor's financial statements:
  - in the aggregate, the quantitative disclosures applicable to entities applying the temporary exemption or overlay approach for all investees for which the temporary exemption or overlay approach, respectively, has been applied in the financial statements used by the investor to apply the equity method for those investees.

The staff also proposed that the amounts disclosed:

- *for individually material investees:* should be those included in the IFRS financial statements of the investee, and not the investor's share of those amounts; and
- *for investees that are individually immaterial but material in aggregate:* should be the investor's share of those amounts included by applying the equity method.

What did the IASB discuss?

One Board member argued that the final amendments should make it clear that this is a one-time accounting policy choice, which should not be reconsidered at a later point in time.

What did the IASB decide?

The IASB agreed with the staff recommendations.

The IASB confirmed the proposals in the ED for various aspects of both approaches.

Confirmation of outstanding details

What's the issue?

The staff asked the Board to confirm various other aspects of the temporary exemption and the overlay approach, based on stakeholder feedback.

What did the staff recommend?

The staff recommended that the Board confirm the following proposals from the ED.

Recommendation	Rationale
Fixed expiry date	
Confirm the ED proposals that:[8] – an entity should be required to cease applying the temporary exemption no later than for annual reporting periods beginning on or after 1 January 2021 (paragraph 20A); and – the overlay approach should not have a fixed expiry date.	– The IASB received mixed feedback on the fixed expiry date for the temporary exemption, with most respondents that did not support the proposal being preparers. – The Board had previously said that the temporary exemption would be acceptable only if the period between the effective date of IFRS 9 and the forthcoming insurance contracts standard would be short. – Because there have been no changes in the expected publication date of the forthcoming insurance contracts standard since the ED was published, the staff did not believe that a revised expiry date is required (i.e. the difference between the effective dates would remain short). – Given that the overlay approach still results in the application and presentation of financial statements under IFRS 9, the staff did not believe that an expiry date is required for the overlay approach.

8. To read the specific wording recommended for confirmation by the staff, see the ED.

Recommendation	Rationale
Whether an entity should be permitted to stop applying the temporary exemption	
Confirm the ED proposals that an entity:[9] – that previously elected to apply the temporary exemption may choose to apply IFRS 9 at the beginning of any subsequent annual reporting period; – that ceases applying the temporary exemption before the application of the forthcoming insurance contracts standard should be permitted, but not required, to apply the overlay approach to qualifying financial assets; and – that chooses or is required to cease applying the temporary exemption should, on initial application of IFRS 9, use the relevant transition requirements of IFRS 9.	– Most respondents did not comment on these proposals. – The staff did not believe that it would be appropriate to prohibit an entity from applying IFRS 9, given that it is an improvement compared with IAS 39. – The staff believed that the transition requirements should be consistent with those in IFRS 9 because an entity that ceases to apply the temporary exemption would be making the transition from IAS 39 to IFRS 9.
Effective date of the amendments	
Confirm the ED proposals that:[9] – the temporary exemption should be effective for reporting periods beginning on or after 1 January 2018; and – the overlay approach should be effective when an entity first applies IFRS 9 (other than the 'own credit' requirements).	– Most respondents did not comment on these proposals. – The staff believed that the proposed effective dates would give enough time for both jurisdictions and preparers to prepare for these amendments.

What did the IASB decide?

The IASB agreed with the staff recommendations.

9. To read the specific wording recommended for confirmation by the staff, see the ED.

KPMG insight

Relief for investors in associates and joint ventures

The IASB did not provide relief to investors in associates and joint ventures that apply the overlay approach from the requirement to use uniform accounting policies. This is because a reporting entity does not need to apply the overlay approach to all qualifying assets and, consequently, an investor may choose to apply the overlay approach to its own qualifying assets but not those of its investee, or vice versa, without contravening the requirement to use uniform accounting policies.

First-time adopters of IFRS

The IASB's decision to permit first-time adopters of IFRS to be eligible for the temporary exemption and overlay approach may increase comparability within the insurance industry and may limit the need for some first-time adopters to apply IAS 39 and IFRS 9 simultaneously for stand-alone and group reporting.

Given that first-time adopters would also be required to implement all applicable IFRS standards on implementation, including IAS 39 (e.g. IAS 39 if applying the temporary exemption or IAS 39 (partially) and IFRS 9 if applying the overlay approach), they would have to consider the costs of implementing IAS 39 systems and processes for a short period of time compared with any benefits of applying the temporary exemption or overlay approach (including in the former case deferring IFRS 9 implementation costs).

Appendix: Summary of IASB's redeliberations

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Temporary exemption from applying IFRS 9		
Eligibility	– The IASB confirmed the ED proposal that: - eligibility would only be assessed at the reporting entity level; - an entity would be required to cease applying the temporary exemption no later than for annual reporting periods beginning on or after 1 January 2021; and - the temporary exemption would be effective for reporting periods beginning on or after 1 January 2018.	No
	– An entity would be permitted to apply IAS 39 rather than IFRS 9 for annual reporting periods beginning before 1 January 2021 only if:	Yes
	- it has not previously applied any version of IFRS 9 (except for the own credit requirements in isolation); and	No
	- its activities are predominantly 'related to insurance' so as to comprise: – issuing contracts in the scope of IFRS 4 that give rise to liabilities whose carrying amount is significant compared with the total carrying amount of the entity's liabilities; and – issuing investment contracts that are measured at fair value through profit or loss (FVTPL) under IAS 39.	Yes
Eligibility reassessment (when an entity is already eligible)	– An entity would: - reassess whether its activities are still predominantly related to insurance if, and only if, there has been a demonstrable change in the corporate structure that could result in a change in the predominant activities of the entity; and - re-compute the predominance ratio using the carrying amounts of the liabilities at the annual reporting date immediately following the change in corporate structure.[10]	No
	– If an entity's activities are no longer predominantly related to insurance, then the entity would be required to apply IFRS 9 from the earlier of: - its second annual reporting period that begins after that change in corporate structure; and - its annual reporting period that begins on or after the fixed expiry date of the temporary exemption.	Yes
	– If an entity's activities are no longer predominantly related to insurance, then the entity would disclose in the annual reporting period in which it reached that conclusion, and in the subsequent annual reporting periods before it applies IFRS 9, the disclosures in paragraphs 37B(a)–(c) of the ED.	No

10. The re-computation of the predominance ratio would apply in the event of any demonstrable change in the entity's corporate structure that occurs subsequent to the initial assessment date (i.e. annual reporting date between 1 April 2015 and 31 March 2016).

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Temporary exemption from applying IFRS 9 (continued)		
Eligibility reassessment (when an entity was not previously eligible for the temporary exemption)	– An entity that was not previously eligible for the temporary exemption would be permitted to reassess its eligibility before the mandatory effective date of IFRS 9 (1 January 2018) if, and only if, there is a demonstrable change in its corporate structure that could result in a change in the predominant activities of the entity. – The computation of the predominance ratio would use the carrying amounts of the liabilities at the annual reporting date immediately following the change in corporate structure.[11] – An entity that becomes eligible for the temporary exemption would disclose, as part of its explanation of how it concluded that it is eligible: - the reason for the reassessment; - an explanation of the change in its predominant activities; and - the date on which the change in corporate structure occurred that made it eligible.	Yes
When to reassess eligibility	– A demonstrable change in the entity's corporate structure that could result in a change in the entity's predominant activities would have to be significant to its operations and demonstrable to external parties.	Yes
Stopping application of the temporary exemption	– An entity: - that previously elected to apply the temporary exemption may choose to apply IFRS 9 at the beginning of any subsequent annual reporting period (paragraph 20E); - that ceases applying the temporary exemption before the application of the forthcoming insurance contracts standard would be permitted, but not required, to apply the overlay approach to qualifying financial assets; and - that chooses or is required to cease applying the temporary exemption would, on initial application of IFRS 9, use the relevant transition requirements of IFRS 9 (paragraph 20F).	No
Predominance ratio	– The predominance ratio would be determined as follows. $$\text{Predominance ratio} = \frac{\text{[liabilities arising from activities related to insurance] + ['other' liabilities that are connected to those activities]}}{\text{Total carrying amount of the entity's liabilities}}$$ – The IASB would provide examples of 'other' liabilities that are connected to those activities.	Yes

11. The re-computation of the predominance ratio would apply in the event of any demonstrable change in the entity's corporate structure that occurs subsequent to the initial assessment date (i.e. annual reporting date between 1 April 2015 and 31 March 2016).

What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Temporary exemption from applying IFRS 9 (continued)		
Predominance ratio (continued)	– An entity's activities would be deemed to be predominantly related to insurance only if the predominance ratio is: - greater than 90%; or - greater than 80% but less than, or equal to, 90% and the entity can provide evidence that it does not have a significant activity that is unrelated to insurance.	Yes
Date of assessment	– An entity would calculate the predominance ratio using the carrying amounts of the liabilities reported at the annual reporting date between 1 April 2015 and 31 March 2016 (i.e. the date of assessment).	Yes
Disclosures	– The disclosure proposed in paragraph 37A(c) of the ED would be amended to require an entity to disclose the fair value at the reporting date and the fair value change during the reporting period separately for: - financial assets that do not meet the solely payments of principal and interest (SPPI) test; and - all other financial assets – i.e. those assets with contractual cash flows that are SPPI.	Yes
	If an asset's carrying amount under IAS 39 is a reasonable approximation of its fair value, then an entity would not be required to disclose its fair value in accordance with paragraph 29(a) of IFRS 7 (e.g. short-term trade receivables).	Yes
	– An entity would be required to present this information with enough granularity to enable users of financial statements to understand the nature and characteristics of the financial assets.	Yes
	– The disclosure proposed in paragraph 37A(d) of the ED would be amended to require an entity to disclose the fair value and the gross carrying amount measured under IAS 39 for financial assets in the scope of this disclosure that do not have low credit risk under IFRS 9 at the reporting date.	Yes
	– An entity would disclose: - the fact that it is applying the temporary exemption (paragraph 37A(a) of the ED); and - how it concluded that it is eligible for the temporary exemption (paragraph 37A(b)).	No
	– If the carrying amount of liabilities arising from contracts in the scope of IFRS 4 is not greater than 90% of total liabilities, then an entity would disclose: - any liabilities, other than those arising from contracts in the scope of IFRS 4, that are included in the numerator of the predominance ratio; and - the information used to determine that the entity's activities are predominantly related to insurance.	Yes
	– An entity would refer to any IFRS 9 information that is not provided in the consolidated financial statements but is publicly available for the relevant period in the individual financial statements.	Yes

<table>
<tr><th>What did the IASB discuss?</th><th>What did the IASB decide?</th><th>Is there an identified change to the ED?</th></tr>
<tr><td colspan="3">Temporary exemption from applying IFRS 9 (continued)</td></tr>
<tr><td>First-time adopters of IFRS</td><td>– A first-time adopter of IFRS would be permitted to apply the temporary exemption if it meets the qualifying criteria.
– When assessing the qualifying criteria on the initial date of assessment (i.e. annual reporting date between 1 April 2015 and 31 March 2016), the first-time adopter would have to use the carrying amounts of liabilities applying applicable IFRS standards.</td><td>Yes</td></tr>
<tr><td rowspan="2">Joint ventures and investments in associates</td><td><table>
<tr><th>An investor that applies…</th><th>… would be permitted (but not required) to…</th></tr>
<tr><td>IFRS 9 (with or without overlay adjustment)</td><td>Retain the IAS 39 accounting used by any associate or joint venture that applies the temporary exemption in its financial statements.</td></tr>
<tr><td>The temporary exemption</td><td>Retain the IFRS 9 accounting (with or without the overlay adjustment) used by any associate or joint venture in its financial statements.</td></tr>
</table>– The relief would apply on an investment-by-investment basis and be a one-time accounting policy choice.</td><td>Yes</td></tr>
<tr><td>– In addition, the investor would reproduce certain of its investee's disclosures (if the investee has applied either the temporary exemption or the overlay approach):
- if they are individually material to the investor's financial statements, including:
– the disclosures applicable to entities applying the temporary exemption or overlay approach for each investee for which the temporary exemption or overlay approach, respectively, has been applied in the financial statements used by the investor to apply the equity method for that investee; and
- if they are individually immaterial but material in aggregate to the investor's financial statements:
– in the aggregate, the quantitative disclosures applicable to entities applying the temporary exemption or overlay approach for all investees for which the temporary exemption or overlay approach, respectively, has been applied in the financial statements used by the investor to apply the equity method for those investees.
– The following amounts would be disclosed:
- for individually material investees: those included in the IFRS financial statements of the investee, and not the investor's share of those amounts; and
- for investees that are individually immaterial but material in aggregate: the investor's share of those included by applying the equity method.</td><td>Yes</td></tr>
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What did the IASB discuss?	What did the IASB decide?	Is there an identified change to the ED?
Overlay approach		
Eligibility	– The approach would be optional and would be effective when an entity first applies IFRS 9 (other than 'own credit' requirements).	No
	– The IASB confirmed the ED proposals on: - the qualifying criteria for the approach (paragraph 35B); - the designation requirements for previously recognised financial assets (paragraphs 35E(a)–(c)); and - certain disclosures (paragraphs 37C and 37D(a)–(d)).[12]	No
	– Qualifying financial assets could include surplus assets that an entity holds for the purposes of regulatory or internal capital requirements.	No
	– When the designated financial assets are held by one legal entity as relating to contracts in the scope of IFRS 4 but the insurance contracts are issued by a different legal entity within the same reporting entity, an entity would disclose (consistently with paragraph 37D(b)) the basis for determining the financial assets to which the overlay approach is applied and the nature of the relationship between the entities.	Yes
Presentation	– For gains and losses for financial assets to which the overlay approach is applied, an entity would: - present in profit or loss information that reflects the application of IFRS 9, with a single, separate line item for the overlay adjustment; and - present in other comprehensive income (OCI) the overlay adjustment separately from other components of OCI consistently with IAS 1; and - disclose the effect of the overlay approach on individual line items in the notes to the financial statements.	Yes
First-time adopters of IFRS	– A first-time adopter of IFRS would be permitted to apply the overlay approach to qualifying assets. – A first-time adopter that applies the overlay approach would be required to restate comparative information to reflect the overlay approach when it restates comparative information in accordance with IFRS 1.	Yes
Other	– The IASB confirmed the ED proposals on: - initially applying, and ceasing to apply, the overlay approach (paragraphs 35D, 35E(d) and 35F); - applying the overlay adjustment to pre-tax profit or loss (paragraph BC24); and - transition to the overlay approach (paragraph 41K).[12]	No

12. To read the specific wording recommended for confirmation by the staff, see the ED.

Project milestones and timeline

Interaction with IFRS 9

Stakeholders 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 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 amendments (December 2015)
3	SlideShare: Insurance amendments (December 2015)
4	New on the Horizon: Insurance contracts (July 2013)
5	Challenges posed to insurers by IFRS 9's classification and measurement requirements
6	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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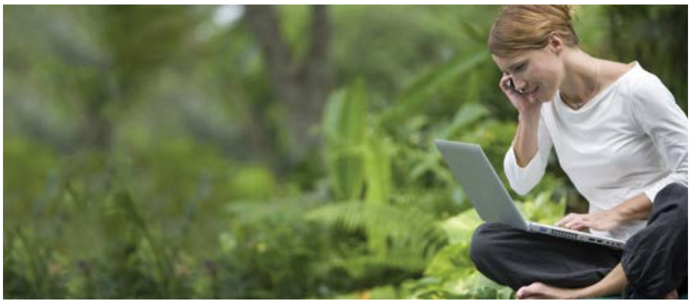

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