The Actuarial Society of Hong Kong

IFRS 9 AND IFRS 17 INTERACTION

2017 Insurance IFRS Seminar

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Session 23

IFRS 17 – Transition

Interaction with IFRS 9

IFRS 9 is effective for periods beginning on or after 1 January 2018

An entity has an option to:

Adopt IFRS 9

Comply with full IFRS 9 disclosures
Re-designate financial assets • First time at IFRS 9 adoption • Second time at IFRS 17 adoption
May elect to use the overlay approach

Defer IFRS 9

Only if it meets certain criteria (i.e. the predominance test)
Continue to adopt IAS 39
Additional disclosure is required if applying the deferral approach
Comply with full IFRS 9 disclosures when the insurer fully adopts IFRS 9 (expected to be same time with IFRS 17, 1/1/2021)

IFRS 17 – Transition

Interaction with IFRS 9 (cont'd)

If the entity has previously adopted IFRS 9, then at IFRS 17 adoption:

- May **reassess** whether an eligible financial asset meets the condition of **amortised cost or FVOCI** under IFRS 9
- A financial asset is eligible for reassessment only if it is connected with contracts within the scope of IFRS 17
- May **designate** a financial asset as measured at **FVTPL** if doing so would eliminate or significantly reduce an accounting mismatch
- Shall **revoke** its **previous designation** of a financial asset as measured at **FVTPL** if the accounting mismatch that led to previous designation is now eliminated because of the application of IFRS 17
- May **reassess** (i.e. designate or revoke) **an equity instrument as FVOCI**

The entity:

- Shall apply the above on the basis of the **facts and circumstances** that exist at the date of initial application of IFRS 17
- Shall apply those designations and classifications **retrospectively**

IFRS 17 – Transition
Interaction with IFRS 9 (cont'd)

The insurer is permitted but <u>not</u> required to restate prior periods to reflect such changes in designations or classifications, but only **without** the use of **hindsight**

If an entity restates prior periods	If an entity does <u>not</u> restate prior periods
The restated financial statements must reflect all the requirements of IFRS 9 for those affected financial assets	Recognise, in the opening retained earnings (or other component of equity, as appropriate) on 1/1/2021, any difference between: a) The previous carrying amount of those financial assets; and b) The carrying amount of those financial assets on 1/1/2021

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IFRS 9 and IFRS 4/17

IFRS 4 amendments

More on overlay approach and deferral approach

In September 2016, the IASB introduced new provisions to:

- remove the increased volatility from P&L for certain financial assets that meet certain criteria (overlay approach); and
- defer the effective date of IFRS 9 for insurers that meet certain criteria (deferral approach)
- The approaches are mutually exclusive and optional

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IFRS 9 and IFRS 17

Timeline

IAS 39 & IFRS 4	IFRS 9 & IFRS 4	IFRS 9 & IFRS 17
Flexibility in IAS 39 and IFRS 4 results in little volatility in P&L	Interaction of IFRS 9 and IFRS 4 may increase volatility in P&L	Commonalities in IFRS 9 and IFRS 17 should reduce volatility in P&L

IFRS 9
1 January 2018

IFRS 17
1 January 2021
(deferral approach)

Deferral approach

Overlay can be elected if IFRS 9 is early adopted

Overlay approach

Overlay approach (1/2)

- The objective of the adjustment is to remove from P&L any increased volatility in a transparent and consistent manner:
- Insurers are permitted to **reclassify from P&L to OCI**:
  - The difference between amounts recognised under IFRS 9 and amounts that would have been recognised under IAS 39
  - For financial assets
    - related to insurance contracts, and
    - measured at FVTPL under IFRS 9 that were <u>not</u> measured at FVTPL under IAS 39
  - For financial assets that meet the above criteria, the insurer is able to designate them to produce the overlay adjustments

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Overlay approach (2/2)

How the overlay approach is applied

- **IFRS 9 applied in full**
- Entities **reclassify** between P&L and OCI
  - difference between IFRS 9 and IAS 39 amounts
  - for financial assets
    - measured at FVPL under IFRS 9 that would not be measured at FVPL under IAS 39; and
    - not connected with activities other than insurance.
- Objective is to remove any additional volatility from P&L in a **transparent** and **consistent** manner while **maximizing comparability**

Illustrative statement of comprehensive income

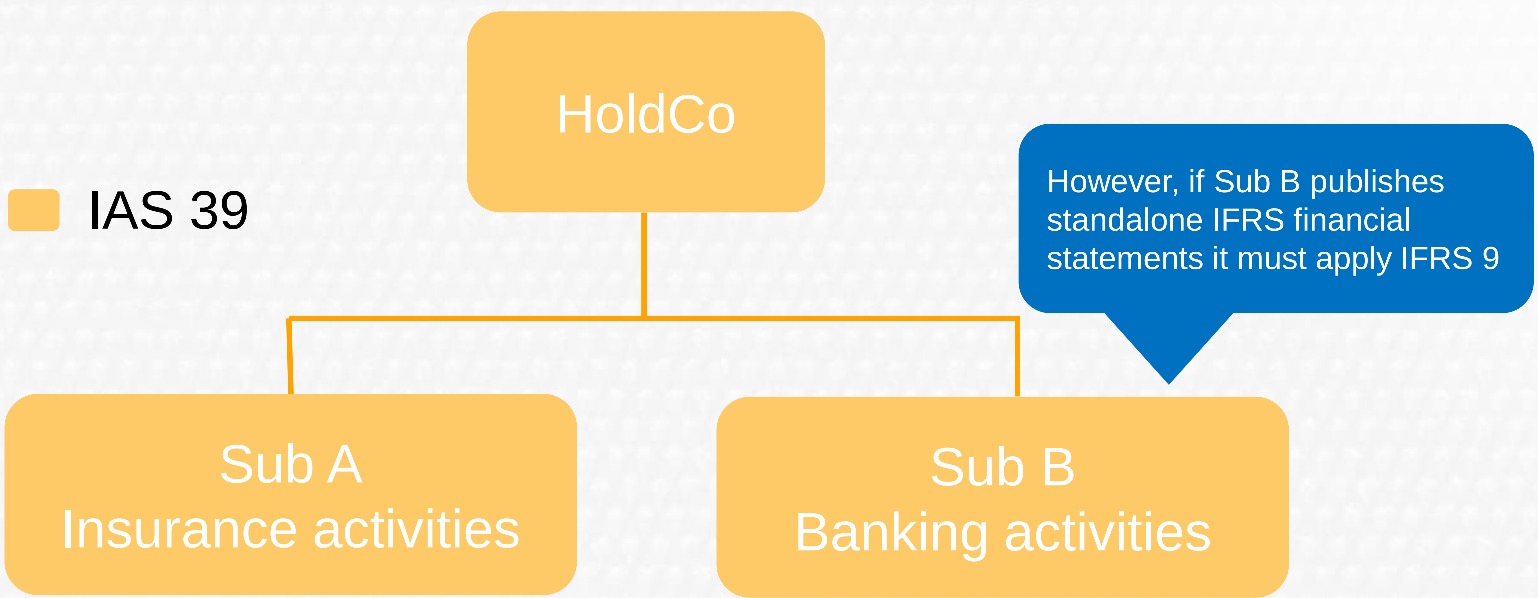
Statement of comprehensive income	
	20XX
Insurance revenue	X
Insurance service expenses	(X)
Insurance service result	X
Investment income 'IFRS 9'	X
Interest on insurance liability	(X)
Overlay approach - adjustment	(X)
Insurance finance income	X
Profit or loss	X
Overlay approach - adjustment	X
Effect of discount rate changes on insurance liability	(X)
Other comprehensive income	X
Total comprehensive income	X

Deferral approach (1/5)

Reporting entity level

- If predominant activity of the conglomerate is insurance:
- Insurance activities predominant (predominance ratio to be explained later)
- Entity has an option to continue to apply IAS 39 to all financial assets in consolidated financial statements

IFRS 9 IAS 39



Deferral approach (2/5)

Eligibility

The IFRS 9 temporary exemption applies only if;

a) The entity has not previously applied any version of IFRS 9 (except for the "own credit" requirements in isolation); and

b) The entity's activities are **predominantly** "related to insurance", where such activities comprise:

   i. Issuing contracts within the scope of IFRS 4 and these contracts give rise to liabilities whose carrying amount is significant compared to the total carrying amount of the entity's liabilities; and

   ii. Issuing investment contracts that are measured at FVTPL by applying IAS 39.

Assessment for the deferral approach: The insurer must use the carrying amounts of liabilities applying applicable IFRS Standards at its annual reporting date between the 1 April 2015 and 31 March 2016.

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Deferral approach (3/5)

Predominance defined

An entity's activities are deemed to be predominantly related to insurance only if:

a) The predominance ratio > 90%; or

b) The predominance ratio ≤ 90% but > 80% and the entity can provide evidence that it does not have a significant activity that is unrelated to insurance.

The predominance ratio is defined as follows:

a) Numerator: the sum of the carrying amounts of:

  i. liabilities arising from activities related to insurance; and

  ii. "other" liabilities that are connected to those activities, and to provide examples of such 'other' connected liabilities.

b) Denominator: the total carrying amount of the entity's liabilities (including all the liabilities included in the numerator).

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Deferral approach (4/5)
Disclosures

An entity is required to disclose:

a) The fact that it is applying the **temporary exemption**; and

b) How it concluded that it is eligible for the temporary exemption; and

  i. If the carrying amount of liabilities arising from contracts within the scope of IFRS 4 is not greater than 90% of total liabilities, an entity should disclose any liabilities, other than those arising from contracts within the scope of IFRS 4, that were added to the numerator of the predominance ratio; and

  ii. An entity must disclose the information used to determine that the entity's activities are predominantly related to insurance if the predominance ratio ≤ 90% but > 80%.

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Deferral approach (5/5)

Disclosures

<u>An entity is also required to disclose:</u>

a) The **FV** at the end of the reporting period and the **FV changes** during the reporting period separately for:

   i. The **financial assets** with contractual CF that are **<u>not</u>** solely principal and interest (**SPPI**); and

   ii. **All other financial assets**; i.e. those assets with contractual CF that are SPPI. The information with a sufficient level of detail to enable users of financial statements to understand the nature and the characteristics of the financial assets;

b) Financial assets that do **<u>not</u>** have **low credit risk**, disclose the **FV** and the **"gross" carrying amount** (i.e. in the case of amortised cost assets, before adjusting for any impairment allowances) measured in accordance with IAS 39; and

c) References to any IFRS 9 information in the individual F/S that is <u>not</u> provided in the consolidated F/S but is publicly available.

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