Hong Kong Institute of Certified Public Accountants
香港會計師公會

MEMBERS' HANDBOOK

Update No. 195

(Issued 17 January 2017)

This Update relates to the issuance of *Applying HKFRS 9* Financial Instruments *with HKFRS 4* Insurance Contracts (Amendments to HKFRS 4).

Document Reference and Title	***Instructions***	***Explanations***
VOLUME II		
Contents of Volume II	Discard existing page ii & replace with revised page ii.	Revised contents page
HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS)		
HKFRS 4 *Insurance Contracts* (Standard)	Replace the cover page and pages 2 and 4 with revised cover page and pages 2 and 4. Insert pages 33-44.	Notes 1 to 3
HKFRS 4 *Insurance Contracts* (Basis for Conclusions)	Replace the cover page and pages 2 and 4 with revised cover page and pages 2 and 4. Insert pages 66-85.	

Note:

1. In November 2016, the Institute's Financial Reporting Standards Committee approved the issuance of *Applying HKFRS 9* Financial Instruments *with HKFRS 4* Insurance Contracts (Amendments to HKFRS 4 *Insurance Contracts*), following the International Accounting Standards Board's equivalent amendments.

2. The amendments provide two optional approaches to deal with the mismatched effective dates of HKFRS 9 and the new insurance contracts standard to replace HKFRS 4:

   (a) The overlay approach: all companies that issue insurance contracts have the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when HKFRS 9 is applied before the new insurance contracts standard is issued; and

   (b) The deferral approach: companies whose activities are predominantly connected with insurance have an optional temporary exemption from applying HKFRS 9 until 2021. Entities that defer the application of HKFRS 9 will continue to apply HKAS 39 *Financial Instruments: Recognition and Measurement*.

3. The amendments are effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS)

HKFRS 4
Revised ~~June 2014~~January 2017

Hong Kong Financial Reporting Standard 4

Insurance Contracts

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Hong Kong Financial Reporting Standard 4 *Insurance Contracts* (HKFRS 4) is set out in paragraphs 1-45 and Appendices A-C and E. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the Standard. Definitions of other terms are given in the Glossary for Hong Kong Financial Reporting Standards. HKFRS 4 should be read in the context of its objective and the Basis for Conclusions, the *Preface to Hong Kong Financial Reporting Standards* and the *Conceptual Framework for Financial Reporting.* HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Appendix F

Amendments to HKFRS 4: *Applying HKFRS 9* Financial Instruments *with HKFRS 4* Insurance Contract*s*

The following sets out amendments required for this Standard resulting from amendments to HKFRS 4 that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Standard and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

Paragraph 3 is amended. New text is underlined and deleted text is struck through.

Scope

…

3 This HKFRS does not address other aspects of accounting by insurers, such as accounting for financial assets held by insurers and financial liabilities issued by insurers (see HKAS 32 *Financial Instruments: Presentation*, HKFRS 7 and HKFRS 9 *Financial Instruments*), except<u>:</u>

<u>(a)</u> <u>paragraph 20A permits insurers that meet specified criteria to apply a temporary exemption from HKFRS 9;</u>

<u>(b)</u> <u>paragraph 35B permits insurers to apply the overlay approach to designated financial assets; and</u>

<u>(c)</u> ~~in the transitional provisions in~~ paragraph 45<u> permits insurers to reclassify in specified circumstances some or all of their financial assets so that the assets are measured at fair value through profit or loss</u>.

…

Paragraph 5 is amended. New text is underlined.

…

5 For ease of reference, this HKFRS describes any entity that issues an insurance contract as an insurer, whether or not the issuer is regarded as an insurer for legal or supervisory purposes. <u>All references in paragraphs 3(a)–3(b), 20A–20Q, 35B–35N, 39B–39M and 46–49 to an insurer shall be read as also referring to an issuer of a financial instrument that contains a discretionary participation feature.</u>

…

New headings are added below paragraphs 20, 20K and 20N. New paragraphs 20A–20Q are added.

Recognition and measurement

...

Temporary exemption from HKFRS 9

20A **HKFRS 9 addresses the accounting for financial instruments and is effective for annual periods beginning on or after 1 January 2018. However, for an insurer that meets the criteria in paragraph 20B, this HKFRS provides a temporary exemption that permits, but does not require, the insurer to apply HKAS 39 *Financial Instruments: Recognition and Measurement* rather than HKFRS 9 for annual periods beginning before 1 January 2021. An insurer that applies the temporary exemption from HKFRS 9 shall:**

(a) use the requirements in HKFRS 9 that are necessary to provide the disclosures required in paragraphs 39B–39J of this HKFRS; and

(b) apply all other applicable HKFRSs to its financial instruments, except as described in paragraphs 20A–20Q, 39B–39J and 46–47 of this HKFRS.

20B **An insurer may apply the temporary exemption from HKFRS 9 if, and only if:**

(a) it has not previously applied any version of HKFRS 9[Ω] , other than only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss in paragraphs 5.7.1(c), 5.7.7–5.7.9, 7.2.14 and B5.7.5–B5.7.20 of HKFRS 9; and

(b) its activities are predominantly connected with insurance, as described in paragraph 20D, at its annual reporting date that immediately precedes 1 April 2016, or at a subsequent annual reporting date as specified in paragraph 20G.

20C An insurer applying the temporary exemption from HKFRS 9 is permitted to elect to apply only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss in paragraphs 5.7.1(c), 5.7.7–5.7.9, 7.2.14 and B5.7.5–B5.7.20 of HKFRS 9. If an insurer elects to apply those requirements, it shall apply the relevant transition provisions in HKFRS 9, disclose the fact that it has applied those requirements and provide on an ongoing basis the related disclosures set out in paragraphs 10–11 of HKFRS 7 (as amended by HKFRS 9 (2010)).

20D An insurer's activities are predominantly connected with insurance if, and only if:

(a) the carrying amount of its liabilities arising from contracts within the scope of this HKFRS, which includes any deposit components or embedded derivatives unbundled from insurance contracts applying paragraphs 7–12 of this HKFRS, is significant compared to the total carrying amount of all its liabilities; and

Ω The HKICPA issued successive versions of HKFRS 9 in 2009, 2010, 2013 and 2014.

(b) the percentage of the total carrying amount of its liabilities connected with insurance (see paragraph 20E) relative to the total carrying amount of all its liabilities is:

(i) greater than 90 per cent; or

(ii) less than or equal to 90 per cent but greater than 80 per cent, and the insurer does not engage in a significant activity unconnected with insurance (see paragraph 20F).

20E For the purposes of applying paragraph 20D(b), liabilities connected with insurance comprise:

(a) liabilities arising from contracts within the scope of this HKFRS, as described in paragraph 20D(a);

(b) non-derivative investment contract liabilities measured at fair value through profit or loss applying HKAS 39 (including those designated as at fair value through profit or loss to which the insurer has applied the requirements in HKFRS 9 for the presentation of gains and losses (see paragraphs 20B(a) and 20C)); and

(c) liabilities that arise because the insurer issues, or fulfils obligations arising from, the contracts in (a) and (b). Examples of such liabilities include derivatives used to mitigate risks arising from those contracts and from the assets backing those contracts, relevant tax liabilities such as the deferred tax liabilities for taxable temporary differences on liabilities arising from those contracts, and debt instruments issued that are included in the insurer's regulatory capital.

20F In assessing whether it engages in a significant activity unconnected with insurance for the purposes of applying paragraph 20D(b)(ii), an insurer shall consider:

(a) only those activities from which it may earn income and incur expenses; and

(b) quantitative or qualitative factors (or both), including publicly available information such as the industry classification that users of financial statements apply to the insurer.

20G Paragraph 20B(b) requires an entity to assess whether it qualifies for the temporary exemption from HKFRS 9 at its annual reporting date that immediately precedes 1 April 2016. After that date:

(a) an entity that previously qualified for the temporary exemption from HKFRS 9 shall reassess whether its activities are predominantly connected with insurance at a subsequent annual reporting date if, and only if, there was a change in the entity's activities, as described in paragraphs 20H–20I, during the annual period that ended on that date.

(b) an entity that previously did not qualify for the temporary exemption from HKFRS 9 is permitted to reassess whether its activities are predominantly connected with insurance at a subsequent annual reporting date before 31 December 2018 if, and only if, there was a change in the entity's activities, as described in paragraphs 20H–20I, during the annual period that ended on that date.

20H For the purposes of applying paragraph 20G, a change in an entity's activities is a change that:

(a) is determined by the entity's senior management as a result of external or internal changes;

(b) is significant to the entity's operations; and

(c) is demonstrable to external parties.

Accordingly, such a change occurs only when the entity begins or ceases to perform an activity that is significant to its operations or significantly changes the magnitude of one of its activities; for example, when the entity has acquired, disposed of or terminated a business line.

20I A change in an entity's activities, as described in paragraph 20H, is expected to be very infrequent. The following are not changes in an entity's activities for the purposes of applying paragraph 20G:

(a) a change in the entity's funding structure that in itself does not affect the activities from which the entity earns income and incurs expenses.

(b) the entity's plan to sell a business line, even if the assets and liabilities are classified as held for sale applying HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. A plan to sell a business line could change the entity's activities and give rise to a reassessment in the future but has yet to affect the liabilities recognised on its statement of financial position.

20J If an entity no longer qualifies for the temporary exemption from HKFRS 9 as a result of a reassessment (see paragraph 20G(a)), then the entity is permitted to continue to apply the temporary exemption from HKFRS 9 only until the end of the annual period that began immediately after that reassessment. Nevertheless, the entity must apply HKFRS 9 for annual periods beginning on or after 1 January 2021. For example, if an entity determines that it no longer qualifies for the temporary exemption from HKFRS 9 applying paragraph 20G(a) on 31 December 2018 (the end of its annual period), then the entity is permitted to continue to apply the temporary exemption from HKFRS 9 only until 31 December 2019.

20K An insurer that previously elected to apply the temporary exemption from HKFRS 9 may at the beginning of any subsequent annual period irrevocably elect to apply HKFRS 9.

First-time adopter

20L A first-time adopter, as defined in HKFRS 1 *First-time Adoption of International Financial Reporting Standards*, may apply the temporary exemption from HKFRS 9 described in paragraph 20A if, and only if, it meets the criteria described in paragraph 20B. In applying paragraph 20B(b), the first-time adopter shall use the carrying amounts determined applying HKFRSs at the date specified in that paragraph.

20M HKFRS 1 contains requirements and exemptions applicable to a first-time adopter. Those requirements and exemptions (for example, paragraphs D16–D17 of HKFRS 1) do not override the requirements in paragraphs 20A–20Q and 39B–39J of this

HKFRS. For example, the requirements and exemptions in HKFRS 1 do not override the requirement that a first-time adopter must meet the criteria specified in paragraph 20L to apply the temporary exemption from HKFRS 9.

20N A first-time adopter that discloses the information required by paragraphs 39B–39J shall use the requirements and exemptions in HKFRS 1 that are relevant to making the assessments required for those disclosures.

Temporary exemption from specific requirements in HKAS 28

20O Paragraphs 35–36 of HKAS 28 *Investments in Associates and Joint Ventures* require an entity to apply uniform accounting policies when using the equity method. Nevertheless, for annual periods beginning before 1 January 2021, an entity is permitted, but not required, to retain the relevant accounting policies applied by the associate or joint venture as follows:

(a) the entity applies HKFRS 9 but the associate or joint venture applies the temporary exemption from HKFRS 9; or

(b) the entity applies the temporary exemption from HKFRS 9 but the associate or joint venture applies HKFRS 9.

20P When an entity uses the equity method to account for its investment in an associate or joint venture:

(a) if HKFRS 9 was previously applied in the financial statements used to apply the equity method to that associate or joint venture (after reflecting any adjustments made by the entity), then HKFRS 9 shall continue to be applied.

(b) if the temporary exemption from HKFRS 9 was previously applied in the financial statements used to apply the equity method to that associate or joint venture (after reflecting any adjustments made by the entity), then HKFRS 9 may be subsequently applied.

20Q An entity may apply paragraphs 20O and 20P(b) separately for each associate or joint venture.

New paragraphs 35A–35N, 39B–39M and 46–49 are added. New headings are added below paragraphs 35A, 35K, 35M, 39A, 39J, 45 and 47.

Discretionary participation features in financial instruments

…

35A The temporary exemptions in paragraphs 20A, 20L and 20O and the overlay approach in paragraph 35B are also available to an issuer of a financial instrument that contains a discretionary participation feature. Accordingly, all references in paragraphs 3(a)–3(b), 20A–20Q, 35B–35N, 39B–39M and 46–49 to an insurer shall be read as also referring to an issuer of a financial instrument that contains a discretionary participation feature.

Presentation

The overlay approach

35B **An insurer is permitted, but not required, to apply the overlay approach to designated financial assets. An insurer that applies the overlay approach shall:**

(a) **reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if the insurer had applied HKAS 39 to the designated financial assets. Accordingly, the amount reclassified is equal to the difference between:**

(i) **the amount reported in profit or loss for the designated financial assets applying HKFRS 9; and**

(ii) **the amount that would have been reported in profit or loss for the designated financial assets if the insurer had applied HKAS 39.**

(b) **apply all other applicable HKFRSs to its financial instruments, except as described in paragraphs 35B–35N, 39K–39M and 48–49 of this HKFRS.**

35C **An insurer may elect to apply the overlay approach described in paragraph 35B only when it first applies HKFRS 9, including when it first applies HKFRS 9 after previously applying:**

(a) **the temporary exemption from HKFRS 9 described in paragraph 20A; or**

(b) **only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss in paragraphs 5.7.1(c), 5.7.7–5.7.9, 7.2.14 and B5.7.5–B5.7.20 of HKFRS 9.**

35D An insurer shall present the amount reclassified between profit or loss and other comprehensive income applying the overlay approach:

(a) in profit or loss as a separate line item; and

(b) in other comprehensive income as a separate component of other comprehensive income.

35E A financial asset is eligible for designation for the overlay approach if, and only if, the following criteria are met:

(a) it is measured at fair value through profit or loss applying HKFRS 9 but would not have been measured at fair value through profit or loss in its entirety applying HKAS 39; and

(b) it is not held in respect of an activity that is unconnected with contracts within the scope of this HKFRS. Examples of financial assets that would not be eligible for the overlay approach are those assets held in respect of banking activities or financial assets held in funds relating to investment contracts that are outside the scope of this HKFRS.

35F An insurer may designate an eligible financial asset for the overlay approach when it elects to apply the overlay approach (see paragraph 35C). Subsequently, it may designate an eligible financial asset for the overlay approach when, and only when:

(a) that asset is initially recognised; or

(b) that asset newly meets the criterion in paragraph 35E(b) having previously not met that criterion.

35G An insurer is permitted to designate eligible financial assets for the overlay approach applying paragraph 35F on an instrument-by-instrument basis.

35H When relevant, for the purposes of applying the overlay approach to a newly designated financial asset applying paragraph 35F(b):

(a) its fair value at the date of designation shall be its new amortised cost carrying amount; and

(b) the effective interest rate shall be determined based on its fair value at the date of designation.

35I An entity shall continue to apply the overlay approach to a designated financial asset until that financial asset is derecognised. However, an entity:

(a) shall de-designate a financial asset when the financial asset no longer meets the criterion in paragraph 35E(b). For example, a financial asset will no longer meet that criterion when an entity transfers that asset so that it is held in respect of its banking activities or when an entity ceases to be an insurer.

(b) may, at the beginning of any annual period, stop applying the overlay approach to all designated financial assets. An entity that elects to stop applying the overlay approach shall apply HKAS 8 to account for the change in accounting policy.

35J When an entity de-designates a financial asset applying paragraph 35I(a), it shall reclassify from accumulated other comprehensive income to profit or loss as a reclassification adjustment (see HKAS 1) any balance relating to that financial asset.

35K If an entity stops using the overlay approach applying the election in paragraph 35I(b) or because it is no longer an insurer, it shall not subsequently apply the overlay approach. An insurer that has elected to apply the overlay approach (see paragraph 35C) but has no eligible financial assets (see paragraph 35E) may subsequently apply the overlay approach when it has eligible financial assets.

Interaction with other requirements

35L Paragraph 30 of this HKFRS permits a practice that is sometimes described as 'shadow accounting'. If an insurer applies the overlay approach, shadow accounting may be applicable.

35M Reclassifying an amount between profit or loss and other comprehensive income applying paragraph 35B may have consequential effects for including other amounts in other comprehensive income, such as income taxes. An insurer shall apply the relevant HKFRS, such as HKAS 12 *Income Taxes*, to determine any such consequential effects.

First-time adopter

35N If a first-time adopter elects to apply the overlay approach, it shall restate comparative information to reflect the overlay approach if, and only if, it restates comparative information to comply with HKFRS 9 (see paragraphs E1–E2 of HKFRS 1).

…

Disclosure

…

Disclosures about the temporary exemption from HKFRS 9

39B An insurer that elects to apply the temporary exemption from HKFRS 9 shall disclose information to enable users of financial statements:

(a) to understand how the insurer qualified for the temporary exemption; and

(b) to compare insurers applying the temporary exemption with entities applying HKFRS 9.

39C To comply with paragraph 39B(a), an insurer shall disclose the fact that it is applying the temporary exemption from HKFRS 9 and how the insurer concluded on the date specified in paragraph 20B(b) that it qualifies for the temporary exemption from HKFRS 9, including:

(a) if the carrying amount of its liabilities arising from contracts within the scope of this HKFRS (ie those liabilities described in paragraph 20E(a)) was less than or equal to 90 per cent of the total carrying amount of all its liabilities, the nature and carrying amounts of the liabilities connected with insurance that are not liabilities arising from contracts within the scope of this HKFRS (ie those liabilities described in paragraphs 20E(b) and 20E(c));

(b) if the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities was less than or equal to 90 per cent but greater than 80 per cent, how the insurer determined that it did not engage in a significant activity unconnected with insurance, including what information it considered; and

(c) if the insurer qualified for the temporary exemption from HKFRS 9 on the basis of a reassessment applying paragraph 20G(b):

(i) the reason for the reassessment;

(ii) the date on which the relevant change in its activities occurred; and

(iii) a detailed explanation of the change in its activities and a qualitative description of the effect of that change on the insurer's financial statements.

39D If, applying paragraph 20G(a), an entity concludes that its activities are no longer predominantly connected with insurance, it shall disclose the following information in each reporting period before it begins to apply HKFRS 9:

(a) the fact that it no longer qualifies for the temporary exemption from HKFRS 9;

(b) the date on which the relevant change in its activities occurred; and

(c) a detailed explanation of the change in its activities and a qualitative description of the effect of that change on the entity's financial statements.

39E To comply with paragraph 39B(b), an insurer shall disclose the fair value at the end of the reporting period and the amount of change in the fair value during that period for the following two groups of financial assets separately:

(a) financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (ie financial assets that meet the condition in paragraphs 4.1.2(b) and 4.1.2A(b) of HKFRS 9), excluding any financial asset that meets the definition of held for trading in HKFRS 9, or that is managed and whose performance is evaluated on a fair value basis (see paragraph B4.1.6 of HKFRS 9).

(b) all financial assets other than those specified in paragraph 39E(a); that is, any financial asset:

(i) with contractual terms that do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding;

(ii) that meets the definition of held for trading in HKFRS 9; or

(iii) that is managed and whose performance is evaluated on a fair value basis.

39F When disclosing the information in paragraph 39E, the insurer:

(a) may deem the carrying amount of the financial asset measured applying HKAS 39 to be a reasonable approximation of its fair value if the insurer is not required to disclose its fair value applying paragraph 29(a) of HKFRS 7 (eg short-term trade receivables); and

(b) shall consider the level of detail necessary to enable users of financial statements to understand the characteristics of the financial assets.

39G To comply with paragraph 39B(b), an insurer shall disclose information about the credit risk exposure, including significant credit risk concentrations, inherent in the financial assets described in paragraph 39E(a). At a minimum, an insurer shall disclose the following information for those financial assets at the end of the reporting period:

(a) by credit risk rating grades as defined in HKFRS 7, the carrying amounts applying HKAS 39 (in the case of financial assets measured at amortised cost, before adjusting for any impairment allowances).

(b) for the financial assets described in paragraph 39E(a) that do not have low credit risk at the end of the reporting period, the fair value and the carrying amount applying HKAS 39 (in the case of financial assets measured at amortised cost, before adjusting for any impairment allowances). For the purposes of this disclosure, paragraph B5.5.22 of HKFRS 9 provides the relevant requirements for assessing whether the credit risk on a financial instrument is considered low.

39H To comply with paragraph 39B(b), an insurer shall disclose information about where a user of financial statements can obtain any publicly available HKFRS 9 information that relates to an entity within the group that is not provided in the group's consolidated financial statements for the relevant reporting period. For example, such HKFRS 9 information could be obtained from the publicly available individual or separate financial statements of an entity within the group that has applied HKFRS 9.

39I If an entity elected to apply the exemption in paragraph 20O from particular requirements in HKAS 28, it shall disclose that fact.

39J If an entity applied the temporary exemption from HKFRS 9 when accounting for its investment in an associate or joint venture using the equity method (for example, see paragraph 20O(a)), the entity shall disclose the following, in addition to the information required by HKFRS 12 *Disclosure of Interests in Other Entities*:

(a) the information described by paragraphs 39B–39H for each associate or joint venture that is material to the entity. The amounts disclosed shall be those included in the HKFRS financial statements of the associate or joint venture after reflecting any adjustments made by the entity when using the equity method (see paragraph B14(a) of HKFRS 12), rather than the entity's share of those amounts.

(b) the quantitative information described by paragraphs 39B–39H in aggregate for all individually immaterial associates or joint ventures. The aggregate amounts:

(i) disclosed shall be the entity's share of those amounts; and

(ii) for associates shall be disclosed separately from the aggregate amounts disclosed for joint ventures.

Disclosures about the overlay approach

39K An insurer that applies the overlay approach shall disclose information to enable users of financial statements to understand:

(a) how the total amount reclassified between profit or loss and other comprehensive income in the reporting period is calculated; and

(b) the effect of that reclassification on the financial statements.

39L To comply with paragraph 39K, an insurer shall disclose:

(a) the fact that it is applying the overlay approach;

(b) the carrying amount at the end of the reporting period of financial assets to which the insurer applies the overlay approach by class of financial asset;

(c) the basis for designating financial assets for the overlay approach, including an explanation of any designated financial assets that are held outside the legal entity that issues contracts within the scope of this HKFRS;

(d) an explanation of the total amount reclassified between profit or loss and other comprehensive income in the reporting period in a way that enables users of financial statements to understand how that amount is derived, including:

(i) the amount reported in profit or loss for the designated financial assets applying HKFRS 9; and

(ii) the amount that would have been reported in profit or loss for the designated financial assets if the insurer had applied HKAS 39.

(e) the effect of the reclassification described in paragraphs 35B and 35M on each affected line item in profit or loss; and

(f) if during the reporting period the insurer has changed the designation of financial assets:

(i) the amount reclassified between profit or loss and other comprehensive income in the reporting period relating to newly designated financial assets applying the overlay approach (see paragraph 35F(b));

(ii) the amount that would have been reclassified between profit or loss and other comprehensive income in the reporting period if the financial assets had not been de-designated (see paragraph 35I(a)); and

(iii) the amount reclassified in the reporting period to profit or loss from accumulated other comprehensive income for financial assets that have been de-designated (see paragraph 35J).

39M If an entity applied the overlay approach when accounting for its investment in an associate or joint venture using the equity method, the entity shall disclose the following, in addition to the information required by HKFRS 12:

(a) the information described by paragraphs 39K–39L for each associate or joint venture that is material to the entity. The amounts disclosed shall be those included in the HKFRS financial statements of the associate or joint venture after reflecting any adjustments made by the entity when using the equity method (see paragraph B14(a) of HKFRS 12), rather than the entity's share of those amounts.

(b) the quantitative information described by paragraphs 39K–39L(d) and 39L(f), and the effect of the reclassification described in paragraph 35B on profit or loss and other comprehensive income in aggregate for all individually immaterial associates or joint ventures. The aggregate amounts:

(i) disclosed shall be the entity's share of those amounts; and

(ii) for associates shall be disclosed separately from the aggregate amounts disclosed for joint ventures.

...

Effective date and transition

...

Applying HKFRS 4 with HKFRS 9

Temporary exemption from HKFRS 9

46 *Applying HKFRS 9* Financial Instruments *with HKFRS 4* Insurance Contracts (Amendments to HKFRS 4), issued in January 2017, amended paragraphs 3 and 5, and added paragraphs 20A–20Q, 35A and 39B–39J and headings after paragraphs 20, 20K, 20N and 39A. An entity shall apply those amendments, which permit insurers that meet specified criteria to apply a temporary exemption from HKFRS 9, for annual periods beginning on or after 1 January 2018.

47 An entity that discloses the information required by paragraphs 39B–39J shall use the transitional provisions in HKFRS 9 that are relevant to making the assessments required for those disclosures. The date of initial application for that purpose shall be deemed to be the beginning of the first annual period beginning on or after 1 January 2018.

The overlay approach

48 *Applying HKFRS 9* Financial Instruments *with HKFRS 4* Insurance Contracts (Amendments to HKFRS 4), issued in January 2017, amended paragraphs 3 and 5, and added paragraphs 35A–35N and 39K–39M and headings after paragraphs 35A, 35K, 35M and 39J. An entity shall apply those amendments, which permit insurers to apply the overlay approach to designated financial assets, when it first applies HKFRS 9 (see paragraph 35C).

49 An entity that elects to apply the overlay approach shall:

(a) apply that approach retrospectively to designated financial assets on transition to HKFRS 9. Accordingly, for example, the entity shall recognise as an adjustment to the opening balance of accumulated other comprehensive income an amount equal to the difference between the fair value of the designated financial assets determined applying HKFRS 9 and their carrying amount determined applying HKAS 39.

(b) restate comparative information to reflect the overlay approach if, and only if, the entity restates comparative information applying HKFRS 9.

HKFRS 4 BC
Revised ~~June 2014~~January 2017

Basis for Conclusions on
Hong Kong Financial Reporting Standards 4

Insurance Contracts

Hong Kong Institute of
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Appendix
Amendments to Basis for Conclusion on IFRS 4: *Applying IFRS 9* Financial Instruments *with IFRS 4* Insurance Contracts

This appendix contains amendments to Basis for Conclusions on IFRS 4 that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Conclusions and this appendix will be deleted.

The first footnote to the heading 'Issues related to IAS 39', before paragraph BC166, is amended. New text is underlined.

IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39<u>, unless an insurer applies the temporary exemption from IFRS 9 in paragraphs 20A–20Q and 39B–39J of IFRS 4. That temporary exemption is discussed in paragraphs BC228–BC299</u>.

A footnote is added to the first sentence of paragraph BC166.

IFRS 9 applies to an insurer's financial assets, including financial assets held to back insurance contracts. In September 2016, the Board issued *Applying IFRS 9* Financial Instruments *with IFRS 4* Insurance Contracts (Amendments to IFRS 4) to address concerns arising from the different effective dates of IFRS 9 and the forthcoming insurance contracts Standard. Those amendments include a temporary exemption from IFRS 9 for insurers that meet specified criteria and an option for insurers to apply the overlay approach to designated financial assets.

After paragraph BC197, a new heading and paragraph BC197A are added.

Issues related to IFRS 9

BC197A In July 2014, the Board issued the completed version of IFRS 9 *Financial Instruments*. It replaces IAS 39 and has an effective date of 1 January 2018. In September 2016, the Board issued *Applying IFRS 9* Financial Instruments *with IFRS 4* Insurance Contracts (Amendments to IFRS 4) to address concerns arising from the different effective dates of IFRS 9 and the forthcoming insurance contracts Standard. Those amendments are discussed in paragraphs BC228–BC299.

After paragraph BC226, a new heading and paragraph BC226A are added.

Disclosures about the temporary exemption from IFRS 9 and the overlay approach

BC226A In September 2016, the Board issued *Applying IFRS 9* Financial Instruments *with IFRS 4* Insurance Contracts (Amen dments to IFRS 4) to address concerns arising from the different effective dates of IFRS 9 and the forthcoming insurance contracts Standard. Paragraphs BC239 and BC269–BC273 discuss the additional disclosures that an insurer is required to provide if it applies those amendments.

After paragraph BC227, new headings and paragraphs BC228–BC299 are added.

Applying IFRS 9 with IFRS 4

Background

BC228 In July 2014, the Board issued the completed version of IFRS 9. IFRS 9 sets out the requirements for recognising and measuring financial instruments. It replaces IAS 39 and is effective for annual periods beginning on or after 1 January 2018 with early application permitted.

BC229 In late 2015, the Board was at an advanced stage in its project to replace IFRS 4 with a new Standard for insurance contracts but noted that the effective date of that replacement will be after the effective date of IFRS 9. Both IFRS 9 and the forthcoming insurance contracts Standard are expected to result in major accounting changes for most insurers.[α] Some interested parties expressed concern that there could be undesirable consequences, such as additional accounting mismatches and volatility in profit or loss, when IFRS 9 is applied before the forthcoming insurance contracts Standard. The Board agreed that these concerns should be addressed.

BC230 Accordingly, in September 2016 the Board amended IFRS 4 by issuing *Applying IFRS 9* Financial Instruments *with IFRS 4* Insurance Contracts (Amendments to IFRS 4), which confirmed with modifications the proposals in the Exposure Draft published in December 2015 (the 2015 ED). The Amendments to IFRS 4 introduce:

(a) an optional overlay approach that permits insurers to reclassify between profit or loss and other comprehensive income (OCI) an amount equal to the difference between the amount reported in profit or loss for designated financial assets applying IFRS 9 and the amount that would have been reported in profit or loss for those assets if the insurer had applied IAS 39 (paragraphs BC237–BC247); and

(b) an optional temporary exemption from IFRS 9 for insurers whose activities are predominantly connected with insurance (paragraphs BC248–BC277).[β]

BC231 Although creating options within IFRSs can reduce comparability, the Board made both the overlay approach and the temporary exemption from IFRS 9 optional. This permits insurers that are eligible for the temporary exemption from IFRS 9 or the overlay approach to choose not to apply them and instead apply the improved accounting requirements in IFRS 9 without adjustment. Comparability is discussed further in paragraphs BC288–BC289.

BC232 Some interested parties suggested that the Board should permit all insurers to defer the application of IFRS 9. They expressed concern that two sets of major accounting changes in a short period of time could result in significant cost and effort for preparers and users of financial statements and also expressed the view that applying IFRS 9 before the effects of the forthcoming insurance contracts Standard can be fully evaluated would require insurers to ‘apply IFRS 9 twice’.

α All references in paragraphs BC228–BC299 to an insurer shall be read as also referring to an issuer of a financial instrument that contains a discretionary participation feature.

β For the avoidance of doubt, any reference to IFRS 9 includes all of its appendices. For example, Appendix C of IFRS 9 specifies amendments to other IFRSs that apply when an entity applies IFRS 9. Those amendments do not apply when an entity applies the temporary exemption from IFRS 9, except as necessary to provide the disclosures required by the Amendments to IFRS 4.

BC233 However, the Board decided that the temporary exemption from IFRS 9 should not be available for all insurers but rather should be limited to insurers that are significantly affected by the different effective dates of IFRS 9 and the forthcoming insurance contracts Standard. The Board concluded that for other insurers the disadvantages of the temporary exemption would outweigh the advantages. In particular, the Board noted that IFRS 9 introduces significant improvements in accounting for financial instruments that should be implemented promptly. These improvements are particularly important for insurers because they hold significant investments in financial instruments. In fact, most users of financial statements with whom the Board and staff held discussions supported the application of IFRS 9 on its effective date because it would result in significantly improved information about insurers' financial instruments. As a result, most users of financial statements preferred the overlay approach over the temporary exemption.

BC234 The Board also observed that there are differing views on whether applying these two sets of major accounting changes consecutively in a short period of time, rather than simultaneously, would result in significant incremental costs for preparers. The Board concluded that the incremental costs for preparers of applying IFRS 9 before applying the forthcoming insurance contracts Standard when compared to applying both Standards at the same time would be limited. This is because all insurers will ultimately have to apply both Standards and incur the costs necessary to do so.

BC235 The Board noted that the concerns about having to 'apply IFRS 9 twice' seem to arise from the Board's decision to provide transition reliefs on initial application of the forthcoming insurance contracts Standard for those insurers that have previously applied IFRS 9. Those transition reliefs would permit, but not require, an insurer to reassess the business model for financial assets and designate or de-designate financial assets under the fair value option and the OCI presentation election for investments in equity instruments based on the facts and circumstances that exist on the date of transition to the forthcoming insurance contracts Standard. The Board observed that the incremental costs of applying those reliefs would be limited because they are optional rather than mandatory and, if applied, would affect only particular financial assets.

BC236 In addition, the Board noted that insurers applying IFRS 9 with IFRS 4 would be able to address concerns about additional accounting mismatches and volatility in profit or loss by using the existing accounting options in IFRS 4 until the forthcoming insurance contracts Standard is applied. In particular, in such circumstances, IFRS 4 permits shadow accounting (see paragraph 30 of IFRS 4), the use of current market interest rates in the measurement of insurance contracts (see paragraph 24 of IFRS 4) and changes in an insurer's accounting policies for insurance contracts (see paragraph 22 of IFRS 4).

Overlay approach

BC237 An insurer applying the overlay approach applies IFRS 9, and consequently provides:

(a) the significantly improved information about financial instruments that results from applying IFRS 9, in particular information on credit risk, that will enable improved analysis by users of financial statements; and

(b) information about financial instruments that is comparable to the information provided by entities that apply IFRS 9 without the overlay approach.

BC238 Furthermore, the overlay approach provides additional information to users of financial statements that will enable them to understand the effects of applying IFRS 9 to the designated financial assets. Applying the overlay approach, an insurer adjusts profit or loss for the designated financial assets so that it reports the same overall amount that it would have reported in profit or loss if IAS 39 had been applied to those financial assets. However, because the insurer makes an offsetting adjustment to OCI, total comprehensive income is not affected (ie total comprehensive income is the same as applying IFRS 9 without the overlay approach). The carrying amounts of all financial assets are determined applying IFRS 9.

BC239 The adjustment to profit or loss for the designated financial assets addresses the additional accounting mismatches and volatility in profit or loss that may arise from applying IFRS 9 before applying the forthcoming insurance contracts Standard. The accompanying presentation and disclosure requirements make the effect of the overlay adjustment transparent.

Eligibility for the overlay approach

BC240 The overlay approach is intended to address the additional accounting mismatches and volatility in profit or loss that may arise if an insurer applies IFRS 9 before applying the forthcoming insurance contracts Standard. To meet that objective:

(a) an insurer may elect to apply the overlay approach only when it first applies IFRS 9;[ϕ] and

(b) a financial asset is eligible for designation if, and only if, it meets both of the following criteria:

(i) it is measured at fair value through profit or loss (FVPL) applying IFRS 9 but would not have been measured at FVPL in its entirety applying IAS 39. This criterion limits application of the overlay approach to those financial assets for which the application of IFRS 9 may result in additional volatility in profit or loss. An example is a financial asset that is measured at FVPL applying IFRS 9 but that would have been bifurcated into a derivative and a host applying IAS 39.

(ii) it is not held in respect of an activity that is unconnected with contracts within the scope of IFRS 4. The forthcoming insurance contracts Standard will not affect assets held in respect of an activity that is unconnected with contracts within the scope of IFRS 4. For example, financial assets held in respect of banking activities or financial assets held in funds relating to investment contracts that are outside the scope of IFRS 4 would not be eligible for designation. On the other hand, financial assets held for insurance regulatory requirements (or for internal capital objectives for the insurance business) are eligible because the forthcoming insurance contracts Standard may affect them.

BC241 Insurers may choose whether to apply the overlay approach, and to what extent. The availability of such a choice reduces comparability among insurers. However, the Board decided not to require insurers to apply the overlay approach to all eligible financial assets. That is because there is no loss of information when an insurer applies the overlay approach to only some financial assets. As described in paragraphs BC238 and BC243, when an insurer applies the overlay approach, it applies IFRS 9 to all its financial assets and provides additional information about the designated financial assets. Moreover, not requiring an

ϕ This includes applying the overlay approach after previously applying either the temporary exemption from IFRS 9 or only the requirements in IFRS 9 for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss (the 'own credit' requirements).

insurer to designate all eligible financial assets minimises the cost of applying the overlay approach and permits insurers to decide how broadly to apply it. Insurers may have different approaches to designating eligible financial assets depending on the extent of, and the insurers' desire to address, the additional accounting mismatches and volatility in profit or loss that may arise from the financial assets they hold.

BC242 Finally, the Board considered the risk that an insurer could apply the overlay approach selectively with the intention of managing reported profit or loss. However, the following features of the overlay approach mitigate this risk:

(a) IFRS 9 is applied to designated financial assets, consistently with financial assets that are not designated, and the accompanying presentation and disclosure requirements make the effect of applying the overlay approach transparent.

(b) an insurer may elect to apply the overlay approach only when it first applies IFRS 9.

(c) an insurer must continue to apply the overlay approach to a designated financial asset until the asset is derecognised, unless the financial asset no longer meets the eligibility criterion described in paragraph BC240(b)(ii) or the insurer stops applying the overlay approach to all designated financial assets. Disclosures are required when an insurer changes its designation of financial assets to make such changes transparent.

(d) when an entity no longer has contracts within the scope of IFRS 4, it must stop applying the overlay approach and cannot recommence applying it.

Presentation

BC243 IFRS 9 must be applied to measure designated financial assets and the income and expense presented in profit or loss for those assets must reflect the application of that Standard. The amount reclassified between profit or loss and OCI (the overlay adjustment) is presented as a separate line item in profit or loss and in OCI, separately from other components in OCI. These presentation requirements are intended to make the overlay adjustment transparent, improve comparability with entities applying IFRS 9 without the overlay approach, and provide users of financial statements with information about the effect on an insurer's financial results of applying IFRS 9 to designated financial assets before the forthcoming insurance contracts Standard.

BC244 The Board decided not to provide additional presentation guidance for the overlay adjustment and instead decided to rely on the requirements in IAS 1 for the presentation of line items in the statement of comprehensive income. Applying IAS 1, the overlay adjustment will be grouped in OCI with other items that will be reclassified subsequently to profit or loss. Additionally, applying IAS 1, line items in profit or loss are presented pre-tax unless otherwise specified. Therefore, the overlay adjustment is presented in profit or loss on a pre-tax basis.

Interaction with other requirements

BC245 The Board observed that reclassifying an amount between profit or loss and OCI applying the overlay approach may have consequential effects for including other items in OCI, such as income taxes. The Board decided that it was unnecessary to develop specific requirements for those consequential effects because other IFRSs, such as IAS 12 *Income Taxes*, contain the relevant requirements.

BC246 When an insurer applies the overlay approach, shadow accounting may be applicable if, and only if, the designated financial assets have a direct effect on the measurement of some or all of its insurance liabilities, related deferred acquisition costs and related intangible assets (see paragraph 30 of IFRS 4). The Board observed that applying both the overlay approach and shadow accounting enables an insurer to report the same profit or loss as if it had applied IAS 39 to the designated financial assets. At the same time, the overall effect on total comprehensive income reflects the result of applying IFRS 9 to those assets.

Transition

BC247 An insurer can apply the overlay approach only when it applies IFRS 9. As a result, the approach to transition and comparative information for the overlay approach is consistent with the approach in IFRS 9. IFRS 9 requires an entity to apply IFRS 9 retrospectively, subject to specified transition reliefs. Accordingly, the insurer must also apply the overlay approach retrospectively. IFRS 9 permits an entity to restate comparative information on transition to IFRS 9, except in specified circumstances in which restatement is prohibited. Accordingly, the insurer is required to restate comparative information to reflect the overlay approach when that comparative information is restated applying IFRS 9, but otherwise is prohibited from doing so.

Temporary exemption from IFRS 9

BC248 The Board observed that although the overlay approach addressed concerns about the additional accounting mismatches and volatility in profit or loss that may arise when IFRS 9 is applied in conjunction with IFRS 4, it would result in additional costs compared to applying IFRS 9 without the overlay approach (see paragraph BC294) or allowing insurers to continue to apply IAS 39.

BC249 Accordingly, the Board introduced a temporary exemption from IFRS 9 for a limited period for insurers whose activities are predominantly connected with insurance. An insurer applying the temporary exemption continues to apply IAS 39 rather than applying IFRS 9. The Board concluded that, for such insurers in that limited period, the temporary exemption reduces costs in a way that would outweigh the following disadvantages:

(a) users of financial statements would not have the significantly improved information about financial instruments provided by applying IFRS 9; and

(b) cross-sector comparability would be reduced.

BC250 The Board decided that the temporary exemption from IFRS 9 should not be available to insurers whose activities are not predominantly connected with insurance because the disadvantages for users of financial statements would outweigh the benefits for those insurers of applying the temporary exemption.

Eligibility for the temporary exemption

BC251 An insurer may apply the temporary exemption from IFRS 9 if, and only if:

(a) it has not previously applied IFRS 9[ψ] (see paragraph BC253); and

ψ However, an entity that has applied only the requirements in IFRS 9 for the presentation of gains and losses on financial liabilities designated as at FVPL (the 'own credit' requirements) is not precluded from applying the temporary exemption from IFRS 9. If an entity applies those own credit requirements, it must apply the relevant requirements in IFRS 7 (as amended by IFRS 9 (2010)).

(b) its activities are predominantly connected with insurance, which is assessed on the basis of the following two criteria:

(i) the insurer has a significant amount of liabilities arising from contracts within the scope of IFRS 4 (see paragraph BC258); and

(ii) the percentage of the insurer's liabilities connected with insurance relative to all its liabilities meets a specified threshold (see paragraphs BC254–BC257).

BC252 Insurers must assess their eligibility for the temporary exemption from IFRS 9 at the reporting entity level. That is, an entity as a whole is assessed by considering all its activities. As a result, an insurer applies either IAS 39 or IFRS 9 to all its financial assets and financial liabilities (see paragraphs BC260–BC263).

Qualifying criteria

BC253 The Board decided that an insurer that has previously applied IFRS 9 is not permitted to apply the temporary exemption from IFRS 9. This is because:

(a) applying the temporary exemption after applying IFRS 9 would disrupt trend information several times (ie on transition to IFRS 9, followed by transition back into IAS 39, followed by another transition to IFRS 9 when the insurer applies the forthcoming insurance contracts Standard); and

(b) if the insurer has already applied IFRS 9, it will have explained the effects of that application to the users of its financial statements, and the temporary exemption would not reduce the costs of applying IFRS 9 before applying the forthcoming insurance contracts Standard.

BC254 In the 2015 ED, the Board proposed that an insurer that has not yet applied IFRS 9 would be eligible for the temporary exemption from IFRS 9 only if its predominant activity is issuing contracts within the scope of IFRS 4. Under those proposals, an insurer would have made that determination by comparing the carrying amount of its liabilities arising from contracts within the scope of IFRS 4 to the total carrying amount of all its liabilities.

BC255 However, in the light of the feedback received on the 2015 ED, particularly from some users of financial statements, the Board broadened the qualifying criteria for the temporary exemption from IFRS 9 in order to improve comparability among peers in the insurance sector. Specifically, in addition to the liabilities arising from contracts within the scope of IFRS 4, the Board decided to treat the following liabilities as being connected with insurance for the purposes of assessing whether an insurer's activities are predominantly connected with insurance:

(a) non-derivative investment contract liabilities measured at FVPL applying IAS 39 (including those designated as at FVPL to which the insurer has applied the requirements in IFRS 9 for the presentation of gains and losses). Even though they do not meet the definition of an insurance contract applying IFRS 4, the Board noted that those investment contracts are sold alongside similar products with significant insurance risk and are regulated as insurance contracts in many jurisdictions. Also, such investment contracts are generally measured at FVPL. Accordingly, the Board concluded that insurers with significant investment contracts measured at FVPL should not be precluded from qualifying for the temporary exemption. However, the Board noted that insurers generally measure at amortised cost most non-derivative financial liabilities that are associated with non-insurance activities and therefore decided that such financial liabilities cannot be treated as connected with insurance.

(b) liabilities that arise because the insurer issues, or fulfils its obligations arising from: (i) contracts within the scope of IFRS 4 and (ii) non-derivative investment contracts measured at FVPL. The Board noted that even if an insurer undertakes only insurance activities, other connected liabilities may arise, such as liabilities for salaries and other employment benefits for the employees of the insurance activities. Accordingly, the Board decided that these other liabilities should be treated as being connected with insurance for the purposes of assessing an insurer's predominant activities.

BC256 To avoid ambiguity and undue effort in determining eligibility for the temporary exemption from IFRS 9, particularly because it is available only for a limited period and is an exemption from the requirements that otherwise must be applied to financial instruments, the Board concluded that it was important to clearly identify the targeted population. Accordingly, the Board decided that there should be a threshold that determines when an insurer's activities are considered to be predominantly connected with insurance. That determinative threshold is met when the percentage of the total carrying amount of an insurer's liabilities connected with insurance relative to the total carrying amount of all its liabilities is greater than 90 per cent. Nevertheless, the Board acknowledged that an assessment based solely on this threshold has shortcomings. Accordingly, the Board decided that when an insurer narrowly fails to meet the threshold, the insurer is still able to qualify for the temporary exemption as long as more than 80 per cent of its liabilities are connected with insurance, and it does not engage in a significant activity unconnected with insurance.

BC257 The Board considered that an insurer with one or more significant activities unconnected with insurance is comparable to other conglomerates, and is less likely to be comparable to entities that are regarded purely as 'insurers'. For insurers engaged in significant activities unconnected with insurance, the Board decided that the benefits for users of financial statements of comparability with non-insurance entities outweigh the benefits of the temporary exemption from IFRS 9. To achieve an appropriate balance between clearly identifying those insurers that qualify for the temporary exemption and creating 'bright lines', the Board concluded that the insurer should consider both quantitative and qualitative factors to determine whether it has a significant activity unconnected with insurance.

BC258 The Board emphasised that its objective is to provide the temporary exemption from IFRS 9 only to insurers significantly affected by the different effective dates of IFRS 9 and the forthcoming insurance contracts Standard. That objective is met only if the insurer has a significant amount of liabilities arising from contracts within the scope of IFRS 4. Accordingly, the Board decided that, to qualify for the temporary exemption, the carrying amount of an insurer's liabilities arising from contracts within the scope of IFRS 4 must be significant compared to the total carrying amount of all its liabilities. Otherwise, applying only the criterion discussed in paragraphs BC251(b)(ii) and BC255, an insurer could qualify for the temporary exemption even if, for example, it had very few contracts within the scope of IFRS 4. The Board acknowledged that determining 'significance' will require judgement but decided not to provide additional guidance on its meaning because this term is used in other IFRSs and is already applied in practice.

BC259 The Board also clarified that deposit components and embedded derivatives that an insurer unbundles from insurance contracts applying paragraphs 7–12 of IFRS 4, and accounts for using IAS 39, are considered liabilities arising from contracts within the scope of IFRS 4 for the purposes of assessing eligibility for the temporary exemption from IFRS 9.

Assessment at the reporting entity level

BC260 The Board concluded that a reporting entity would provide more understandable and useful information by accounting for its financial assets and financial liabilities applying either IFRS 9 or IAS 39 (ie if the temporary exemption from IFRS 9 applies at the reporting entity level). This is the primary reason why the Board decided that the temporary exemption from IFRS 9 should be available only if the entity as a whole qualifies by considering all of its activities. In considering the feedback on the 2015 ED, the Board discussed suggestions from some respondents that the eligibility for the temporary exemption should be assessed both at and below the reporting entity level. The following views were expressed in support of that approach:

(a) some respondents stated that users of financial statements do not rely on the information in a group's consolidated primary financial statements for sector comparisons of conglomerates and instead focus on other types of information (eg segmental information). Therefore, in those respondents' view, consolidated financial statements that include both IFRS 9 and IAS 39 information would not cause difficulties for many users of financial statements.

(b) some respondents argued that avoiding the additional costs of applying IFRS 9 before applying the forthcoming insurance contracts Standard is as important for the insurance activities within a diversified group as it is for a group in its entirety.

BC261 However, the Board rejected the suggestion to permit insurers to apply the temporary exemption from IFRS 9 below the reporting entity level. The Board noted that:

(a) IFRSs require a reporting entity to use consistent accounting policies because this enables users of financial statements to compare the reporting entity with other reporting entities, and provides more understandable and useful information about the reporting entity's assets and liabilities. Consistent accounting policies also reduce accounting complexities arising from intra-group transactions. Conglomerates that engage in both insurance and non-insurance activities frequently have complex corporate and financial structures, and engage in complex transactions. Any requirement or option to split these entities into constituent parts would necessarily be complex in order to encompass all possible structures and activities—both complex to articulate and complex for users of financial statements to understand.

(b) most users of financial statements and regulators supported assessing eligibility for the temporary exemption from IFRS 9 at the reporting entity level. This is because they were concerned about the implications of applying the temporary exemption below the reporting entity level—specifically, applying both IFRS 9 and IAS 39 in one set of consolidated financial statements. They stated that such an approach would make financial statements more complex to understand and compare. Users of financial statements told the Board that understanding how IAS 39 and IFRS 9 are applied to different parts of an entity and analysing two significant changes in the accounting for financial instruments in a short period of time (ie the changes arising from initially applying IFRS 9 to only some parts of a reporting entity and then the changes arising from subsequently applying IFRS 9 to the rest of its activities) would be more confusing compared to an entity continuing to apply IAS 39 or applying IFRS 9.

BC262 Nonetheless, the Board observed that if a group fails to qualify for the temporary exemption from IFRS 9 because its activities are not predominately connected with insurance, then the group could provide additional information to explain more clearly the effects of applying

IFRS 9 with IFRS 4. In particular, although the group would apply IFRS 9 to all financial assets and financial liabilities reported in its consolidated financial statements:

(a) the overlay approach would be available to address additional accounting mismatches and volatility in profit or loss associated with the group's insurance activities arising from the different effective dates of IFRS 9 and the forthcoming insurance contracts Standard.

(b) the group would have had to disclose segmental information in accordance with IFRS 8 *Operating Segments* for its insurance activities using IAS 39, if such information is used in internal management reports and if insurance activities are an operating segment. Even if the group did not produce such segmental information, the group could still choose to disclose additional information for its insurance activities using IAS 39. This would facilitate comparisons with other insurers applying IAS 39.

BC263 In addition, if an individual reporting entity, such as a subsidiary, undertakes activities predominantly connected with insurance, and prepares separate or individual financial statements, it could apply the temporary exemption from IFRS 9 in those separate or individual financial statements, even though it is required to produce information using IFRS 9 for inclusion in the consolidated financial statements. That subsidiary may decide that the cost of applying the temporary exemption (ie IAS 39) in its separate or individual financial statements is justified despite also needing to prepare IFRS 9 information for consolidation.

Initial assessment and reassessment of predominant activities

BC264 The 2015 ED proposed that an entity would assess whether it qualifies for the temporary exemption from IFRS 9 on the date that it would otherwise be required to initially apply IFRS 9; ie the first day of the annual period beginning on or after 1 January 2018. However, respondents told the Board that entities would need to perform the assessment earlier than that proposed date because they would need adequate time to implement IFRS 9 if they did not qualify for the temporary exemption. Therefore, the Board decided that an entity assesses whether its activities are predominantly connected with insurance at its annual reporting date (ie the end of its annual period) that immediately precedes 1 April 2016. This assessment date is intended to reduce uncertainty and provide adequate time for entities to implement IFRS 9 if they do not qualify for the temporary exemption.

BC265 An entity that previously qualified for the temporary exemption from IFRS 9 is required to reassess whether its activities are predominantly connected with insurance at a subsequent annual reporting date if, and only if, there was a change in its activities as described in paragraphs 20H–20I of IFRS 4 during the annual period that ended on that date (for example, the acquisition or disposal of a business line). The Board observed that a change in an entity's activities is expected to be very infrequent and provided further guidance on the nature of such changes. The Board considered that a change merely in the level of an entity's insurance liabilities relative to its total liabilities over time would not trigger a reassessment because such a change, in the absence of other events, would be unlikely to indicate a change in the entity's activities.

BC266 The entity's financial statements would reflect the effects of a change in its activities only after the change has been completed. Therefore, an entity performs the reassessment using the carrying amounts of its liabilities at the annual reporting date immediately following the completion of the change in its activities. For example, an entity would reassess whether its activities are predominantly connected with insurance at the annual reporting date immediately following the completion of an acquisition.

BC267 When an entity concludes, as a result of a reassessment, that its activities are no longer predominantly connected with insurance, the entity is permitted to continue to apply the temporary exemption from IFRS 9 only until the end of the annual period that began immediately after that reassessment. Nevertheless, the entity must apply IFRS 9 in annual periods beginning on or after 1 January 2021, which is the fixed expiry date of the temporary exemption. The Board concluded that this provides entities with time to implement IFRS 9 after a change in their activities. But all entities must apply IFRS 9 by the fixed expiry date of the temporary exemption, and a change in their activities would not affect the preparations needed to implement IFRS 9 by that date.

BC268 Similarly, an entity that previously did not qualify for the temporary exemption from IFRS 9 and has not applied IFRS 9 is permitted to reassess its eligibility at a subsequent reporting date before 31 December 2018 (the effective date of IFRS 9) if, and only if, there was a change in the entity’s activities as described in paragraphs 20H–20I of IFRS 4. The Board concluded that this provision, which was not included in the 2015 ED, was appropriate as a result of its decision to set an earlier initial assessment date than was proposed in that ED (see paragraph BC264).

Disclosure

BC269 The temporary exemption from IFRS 9 will delay the provision of better information by some insurers and reduce comparability among insurers and between insurers and other entities. To mitigate these disadvantages, the Board decided that an insurer applying the temporary exemption must disclose information to enable users of financial statements to make some comparisons between insurers applying the temporary exemption and entities applying IFRS 9.

BC270 In requiring these disclosures, the Board was conscious of the need to minimise the extent to which an insurer would need to prejudge considerations that it will make when it later applies IFRS 9. The Board also noted that disclosures based on the assessment of the business model applying IFRS 9 or disclosures that would effectively require an insurer to apply the IFRS 9 impairment requirements would be unduly burdensome for preparers, though some users of financial statements had suggested that such disclosures would be useful.

BC271 In response to the 2015 ED, most regulators and users of financial statements supported the disclosure objectives proposed by the Board. They also suggested that the Board require additional disclosures to assist in cross-sector comparisons and in better understanding the credit risk of financial assets held by insurers applying the temporary exemption from IFRS 9. In contrast, some preparers expressed the view that the Board should not require disclosures that would require insurers applying the temporary exemption to apply any aspect of IFRS 9.

BC272 The Board concluded that it could balance the potential cost for preparers with improved comparability for users of financial statements and regulators by requiring:

(a) fair value information for all financial assets, separated into groups that would identify a population that is similar to the population that would be separately disclosed as mandatorily measured at FVPL applying IFRS 9; and

(b) credit risk information for a specific population of financial assets that is similar to the population to which the IFRS 9 expected credit loss requirements would apply.

Insurers applying the temporary exemption from IFRS 9 must use the requirements in IFRS 9, including any consequential amendments that IFRS 9 made to other IFRSs (such as IFRS 7), that are necessary to provide those disclosures.

BC273 Paragraph 30 of IAS 8 requires an entity to disclose information when it has not applied a new IFRS that has been issued but is not yet effective. Accordingly, the Board observed that insurers are required to provide information about the expected effect of the Amendments to IFRS 4 before they are effective, including whether the insurer expects to apply the temporary exemption from IFRS 9.

Transition

BC274 The Board noted that no special transition provisions are needed for the temporary exemption from IFRS 9. This is because, when an insurer first applies:

(a) the temporary exemption, it would continue applying IAS 39 and start providing the disclosures required by the Amendments to IFRS 4, using the relevant provisions in IFRS 9 that are necessary to provide those disclosures; and

(b) IFRS 9 after previously applying the temporary exemption, it would apply the transition requirements in IFRS 9 and stop providing the required disclosures relating to the temporary exemption.

Fixed expiry date for the temporary exemption

BC275 The forthcoming insurance contract Standard will replace IFRS 4 and therefore, the temporary exemption from IFRS 9 will no longer exist when the insurer first applies that forthcoming Standard. However, the Board decided that, even if the forthcoming insurance contract Standard is not effective by 1 January 2021, all insurers must apply IFRS 9 for annual periods beginning on or after 1 January 2021.

BC276 The Board considered the view that an insurer should be required to apply IFRS 9 only when it applies the forthcoming insurance contracts Standard. However, the Board disagreed with that view because IFRS 9 provides significant improvements to the accounting requirements for financial instruments. Hence, the Board decided that a temporary exemption from IFRS 9 would be acceptable only if it is in place for a short period of time. Therefore, insurers are required to apply IFRS 9 no later than 2021.

BC277 In contrast, the Board rejected a fixed expiry date for the overlay approach. Unlike insurers applying the temporary exemption from IFRS 9, insurers applying the overlay approach will provide the improved financial instrument information required by IFRS 9 and information about the effects on designated assets of moving from IAS 39 to IFRS 9. Accordingly, the rationale set out in paragraph BC276 for setting a fixed expiry date for the temporary exemption does not apply to the overlay approach. However, the forthcoming insurance contract Standard will replace IFRS 4 and therefore, the overlay approach in IFRS 4 will no longer exist when the insurer first applies that forthcoming Standard.

Temporary exemption from specific requirements in IAS 28

BC278 When an entity applies the equity method, paragraphs 35–36 of IAS 28 *Investments in Associates and Joint Ventures* require the entity to adjust its associate's or joint venture's accounting policies to conform them to the entity's accounting policies. The 2015 ED did not propose any relief from this requirement. However, in the light of the feedback received, the Board decided that:

(a) an entity that applies IFRS 9 would be permitted, but not required, to retain the IAS 39 accounting used by any associate or joint venture that applies the temporary exemption from IFRS 9 in its financial statements;

(b) an entity that applies the temporary exemption from IFRS 9 would be permitted, but not required, to retain the IFRS 9 accounting used by any associate or joint venture in its financial statements; and

(c) these reliefs would be available separately for each associate or joint venture.

BC279 These reliefs are intended to reduce the costs of applying the equity method when an entity does not qualify for the temporary exemption from IFRS 9, and thus applies IFRS 9, but one or more of the entity's associates or joint ventures is eligible and chooses to continue to apply IAS 39 (or vice versa).

BC280 The Board observed that when providing these reliefs, cost and benefit considerations for accounting for associates and joint ventures using the equity method are different to those for subsidiaries that are consolidated, for the following reasons:

(a) users of financial statements lose less information when entities apply equity accounting using different accounting policies for similar transactions than when entities prepare consolidated financial statements using different accounting policies for similar transactions. Under the equity method, the assets and liabilities of the associate and joint venture are not controlled by the entity and therefore are not considered as part of the group. Accordingly, the reliefs affect only the net amounts recognised through the equity method instead of all the items related to financial instruments presented in the group's financial statements.

(b) significant additional practical difficulties or costs may arise for an entity to apply uniform accounting policies when equity accounting is applied compared to when preparing consolidated financial statements because the entity does not control an associate or joint venture.

BC281 The Board concluded that similar reliefs are not needed for the overlay approach because that approach is applied on an instrument-by-instrument basis—that is, an entity need not apply the overlay approach to all eligible financial assets. Accordingly, when applying the equity method, the entity could retain (or modify) the overlay approach applied by an associate or joint venture or retain the associate's or joint venture's full IFRS 9 accounting.

First-time adopter

BC282 The Board decided that the concerns raised by some interested parties about the different effective dates of IFRS 9 and the forthcoming insurance contracts Standard could be equally applicable to some first-time adopters. This might be the case, for example, when a first-time adopter previously applied accounting policies for financial instruments under a national GAAP that was not significantly different from IFRSs. Consequently, the Board decided to permit first-time adopters to apply the overlay approach, described in paragraph 35B of IFRS 4, or the temporary exemption from IFRS 9, described in paragraph 20A of IFRS 4, consistently with existing IFRS preparers if, and only if, those first-time adopters meet the same criteria. For example, a first-time adopter would assess whether its activities are predominately connected with insurance in the same way, and on the same date, as an existing IFRS preparer.

Effects analysis of Applying IFRS 9 with IFRS 4

BC283 The Board is committed to assessing and sharing knowledge about the likely costs of implementing proposed new requirements and the likely ongoing costs and benefits of each new IFRS—the costs and benefits are collectively referred to as 'effects'. The Board gains insight on the likely effects of the proposals for new or revised IFRSs through its formal exposure of proposals, analysis and consultations with relevant parties.

BC284 In evaluating the likely effects of the Amendments to IFRS 4, the Board has considered the following:

(a) how the overlay approach and the temporary exemption from IFRS 9 affect the financial statements of those applying IFRS;

(b) whether the changes improve the comparability of financial information between different reporting periods for an individual entity and among different entities in a particular reporting period;

(c) whether the changes will improve the ability of users of financial statements to assess the future cash flows of an entity;

(d) whether the improvements to financial reporting will result in better economic decision-making;

(e) the likely effect on compliance costs for preparers; and

(f) whether the likely costs of analysis for users of financial statements are affected.

Financial statements of those applying IFRS

BC285 The Amendments to IFRS 4 would affect only those insurers that have not applied IFRS 9 (other than the requirements for the presentation of gains and losses on financial liabilities designated as at FVPL). Accordingly, non-insurers, or insurers that have already applied IFRS 9, will not be affected by the changes.

BC286 The Amendments to IFRS 4 introduce the overlay approach—the option to reclassify between profit or loss an amount equal to the incremental effect on profit or loss of applying IFRS 9 to designated financial assets until the insurer applies the forthcoming insurance contracts Standard. That approach will affect the financial statements as follows:

(a) the overlay approach will change the reported profit or loss and total OCI. However, the overlay approach will not change the carrying amounts reported on the statement of financial position, nor will it change total comprehensive income.

(b) insurers will present a line item for the amount reclassified in the statement of profit or loss, and in OCI separately from other components of OCI.

(c) insurers will provide disclosures to explain how the overlay adjustment is calculated and the effect of that adjustment on the financial statements.

BC287 The Amendments to IFRS 4 also, as an alternative, permit an insurer meeting specified criteria to apply a temporary exemption from IFRS 9—the option to defer the application of IFRS 9 until the earlier of the date when the insurer applies the forthcoming insurance contracts Standard or the fixed expiry date of the temporary exemption. The temporary exemption from IFRS 9 will affect the financial statements as follows:

(a) the carrying amounts reported in the statement of financial position and the profit or loss and total comprehensive income reported in the statement of profit or loss and OCI will be different compared to if the insurer had applied IFRS 9. However, there will be no effect on comparability with the insurer's prior period financial statements because the insurer will continue to apply IAS 39.

(b) insurers applying the temporary exemption will provide disclosures that will enable users of financial statements to make comparisons between entities applying the temporary exemption and entities applying IFRS 9.

Comparability

BC288 The financial statements of insurers that apply the overlay approach or the temporary exemption from IFRS 9 will not be directly comparable with entities that apply IFRS 9. Furthermore, making those two approaches optional also reduces comparability among entities. However, the Board has sought to mitigate the concerns about comparability by deciding the following:

(a) the effect of the overlay approach must be presented as a separate line item in profit or loss and in OCI, separately from other components of OCI. This will help users of financial statements to compare entities that apply the overlay approach and those that apply IFRS 9 without the overlay approach.

(b) the scope of the temporary exemption is restricted with the intention that any reduction in comparability affects only peers within the insurance sector. In addition, based on the feedback received, the Board expects that in a particular jurisdiction, insurers that qualify for the temporary exemption would select the same options relating to the overlay approach or the temporary exemption, which would improve comparability in practice within a jurisdiction.

(c) the disclosure requirements provide some information that will enable users of financial statements to compare entities that apply the temporary exemption with those that apply IFRS 9.

(d) there is a fixed expiry date for the temporary exemption from IFRS 9. That fixed expiry date, and the Board's commitment to completing the forthcoming insurance contracts Standard expeditiously, mean that any reduction in comparability will last only for a short period of time (ie until the temporary exemption expires or the forthcoming insurance contracts Standard is applied).

(e) eligibility for the temporary exemption is assessed at the reporting entity level and an entity applies either IAS 39 or IFRS 9 to all its financial assets and financial liabilities. Accordingly, an entity may apply either the temporary exemption or the overlay approach in its financial statements, but not both (except in the limited case of equity accounting as discussed in paragraphs BC278–BC281).

BC289 Nevertheless, the Board acknowledged that *full* comparability cannot be achieved by these decisions because such comparability would be achieved only if all insurers applied IFRS 9 when it becomes effective or if all entities, including insurers, deferred IFRS 9. The Board concluded that deferring the effective date of IFRS 9 for all entities would be a disproportionate response to the issues raised because it would mean that preparers and users of financial statements would not benefit from the better reporting that results from applying IFRS 9.

Usefulness in assessing the future cash flows of an entity and better economic decision-making

BC290 The Board received mixed feedback as to whether the Amendments to IFRS 4 would result in financial statements that are more useful in assessing the cash flows of an insurer:

(a) many users of financial statements did not support the temporary exemption from IFRS 9 because:

(i) they expected no additional difficulty in their analysis as a result of the additional accounting mismatches and volatility in profit or loss that might arise if IFRS 9 was applied before the forthcoming insurance contracts Standard; and

(ii) they already saw volatility when analysing insurers and were able to make adjustments necessary to understand the financial performance of such insurers.

(b) however, some users expressed concerns about potential additional volatility in profit or loss and supported the overlay approach, the temporary exemption, or both, because reporting such volatility could:

(i) make the financial statements of insurers less understandable and less attractive for investment; and

(ii) make it more difficult to predict long-term economic performance and to forecast earnings based on profit or loss information.

BC291 The Board expects that the temporary exemption from IFRS 9 would not impair a user's existing ability to assess an insurer's future cash flows because the insurer would continue to apply the existing requirements in IAS 39. However, insurers applying the temporary exemption would not provide users of financial statements with the better information that would be available from entities applying IFRS 9. In addition, the application of the temporary exemption may impair the usefulness of information for economic decision-making because of the reduced comparability among entities. The Board has sought to mitigate the concern about comparability as described in paragraph BC288.

BC292 The Board expects that the overlay approach would provide users of financial statements with better information to assess future cash flows and make economic decisions than would be the case if an insurer applies the temporary exemption from IFRS 9. This is because insurers applying the overlay approach would provide the improved financial instrument information resulting from applying IFRS 9. In addition, insurers applying the overlay approach would provide additional information that would help users of financial statements to understand the effects, on designated financial assets, of applying IFRS 9.

Effect on compliance costs for preparers

BC293 The temporary exemption from IFRS 9 will be more costly for preparers than just applying IAS 39 because of the additional disclosures required. However, the Board does not consider those costs to be unduly onerous because those disclosures do not require the insurer to apply IFRS 9 in its entirety, and in particular, do not require the application of the expected credit loss model in IFRS 9.

BC294 IAS 39 already requires insurers to disclose fair value information for financial assets eligible for designation under the overlay approach and that is the only additional information needed to apply that approach. However, the overlay approach will be more costly than applying:

(a) only IFRS 9, because an insurer will need to decide which financial assets to designate and will then need to continue to track and measure those designated assets in accordance with IAS 39.

(b) the temporary exemption from IFRS 9, because an insurer applying the overlay approach will incur costs to apply IFRS 9 earlier than if it applied the temporary exemption. However, all insurers applying the temporary exemption will apply IFRS 9 in the future and thus will incur the necessary costs to do so at that point.

BC295 Nevertheless, the Board noted that the insurers would already have systems in place to measure the designated financial assets in accordance with IAS 39 because the information required to apply the overlay approach is the same as the information previously prepared when the insurer applied IAS 39. Moreover, the Board noted that if an insurer determines that the costs of the overlay approach are excessive, that insurer could choose not to apply the overlay approach or to apply it to only some of its eligible assets.

BC296 Finally, instead of applying the temporary exemption from IFRS 9 or the overlay approach, the Board noted that an insurer could choose to address the additional accounting mismatches and volatility in profit or loss by providing additional disclosures that explain those effects to the users of its financial statements or by using existing accounting options in IFRS 4 (see paragraph BC236).

The costs of analysis for users of financial statements

BC297 The overlay approach and the temporary exemption from IFRS 9 may increase the costs of analysis for users of financial statements, particularly if a user of financial statements invests across insurance and other sectors. This is because the Amendments to IFRS 4 reduce comparability, especially as the temporary exemption and the overlay approach are optional. The Board has sought to mitigate this concern as described in paragraph BC288.

BC298 Furthermore, the Board observed that the overlay approach would provide mitigating benefits for users of financial statements because it allows an insurer to address concerns about the different effective dates of IFRS 9 and the forthcoming insurance contracts Standard in a transparent manner, while applying the improved financial reporting requirements in IFRS 9.

BC299 The temporary exemption from IFRS 9 would reduce the accounting mismatches and volatility in profit or loss that may arise from applying IFRS 9 before the forthcoming insurance contracts Standard. However, the Board noted that, if an insurer applies the temporary exemption, it would not provide users of financial statements with the improved information about financial instruments that is required by IFRS 9. The Board has mitigated that loss of information by:

(a) limiting the temporary exemption to insurers whose activities are predominantly connected with insurance;

(b) requiring eligibility for the temporary exemption to be assessed at the reporting entity level so that an entity applies either IAS 39 or IFRS 9 to all its financial assets and financial liabilities;

(c) requiring insurers applying the temporary exemption to provide additional disclosures; and

(d) setting a fixed expiry date for the temporary exemption.

Dissenting opinion on the Amendments to IFRS 4

Dissent of Mary Tokar from *Applying IFRS 9* Financial Instruments *with IFRS 4* Insurance Contracts (Amendments to IFRS 4) as issued in September 2016

DO1 Ms Tokar dissents from the issue of the Amendments to IFRS 4 because she disagrees with providing a temporary exemption from IFRS 9 for insurers whose activities are predominantly connected with insurance. She believes that it is important for IFRS 9 to be applied without delay because of the significant improvements that IFRS 9 requires in accounting for financial assets, including a new impairment model that is based on expected credit losses and the related enhanced disclosures about credit risk. She notes that these improvements were made in response to calls from regulators and users of financial statements after the global financial crisis and many of those parties have called for these improvements to be introduced without delay. She also notes that the temporary exemption from IFRS 9 will reduce comparability among reporting entities, including among insurers.

DO2 Ms Tokar agrees that there are valid concerns about the different effective dates of IFRS 9 and the forthcoming insurance contracts Standard. She agrees that the classification and measurement requirements in IFRS 9 may lead to new accounting mismatches and, hence, an increase in reported volatility within profit or loss for those insurers that measure insurance contracts on a cost basis under IFRS 4. She also notes that some of that volatility is expected to be offset in profit or loss when the forthcoming insurance contracts Standard is applied because that forthcoming Standard is expected to require insurers to measure insurance contracts using current estimates of future cash flows discounted at a current rate.

DO3 Ms Tokar believes that the amendment to permit insurers to use the overlay approach makes a temporary exemption from IFRS 9 unnecessary. She notes that the overlay approach deals more appropriately with the concerns expressed about additional accounting mismatches and volatility because the overlay approach:

(a) provides users of financial statements with the benefits of the improved accounting required by IFRS 9 but also removes the effect of potential additional volatility from profit or loss for designated financial assets until the forthcoming insurance contracts Standard is applied.

(b) makes it easier for users of financial statements to compare the financial statements of insurers that apply the overlay approach with those that do not, as well as with other entities that hold similar financial assets. This comparability will be reduced if some insurers apply a temporary exemption from IFRS 9.

DO4 Ms Tokar observed that the Board and staff undertook extensive outreach with users of financial statements while developing, and following the publication of, the Exposure Draft in December 2015. This outreach was global and involved both users specialising in insurance activities and non-specialist users. Many users expressed the view that entities should apply IFRS 9 in 2018 (ie when that Standard is mandatory), even if this is before the application of the forthcoming insurance contracts Standard, because IFRS 9 provides improved information about financial instruments. Those users of financial statements expressed the view that if the Board decided to address preparers’ concerns regarding increases in accounting mismatches and volatility then only the overlay approach should be used. They expressed this preference because the overlay approach maintains the comparability of financial statements by requiring all entities to apply IFRS 9 while addressing volatility in a transparent way.

DO5 Ms Tokar also notes that, as a result of the Amendments to IFRS 4, three different reporting outcomes will exist for insurers: (a) application of IFRS 9 without the overlay approach; (b) application of IFRS 9 with the overlay approach; and (c) use of the temporary exemption from IFRS 9. She believes that this variety in approaches to accounting for financial instruments may significantly reduce comparability among insurers, and between insurers and other entities. She observes that reduced comparability is one of the concerns expressed by users of financial statements about the temporary exemption.