KPMG

Amendments to IFRS 4

Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*

23 September 2016

kpmg.com/ifrs

Addressing differing effective dates

"The insurance contracts project is nearing its end, with the new standard due around the end of 2016.

The amendments to IFRS 4 provide two optional solutions to reduce the impact of the differing effective dates of IFRS 9 and the forthcoming insurance contracts standard but include various complexities."

Joachim Kölschbach,

KPMG's global IFRS insurance leader

What's the issue?

Differing effective dates may result in…

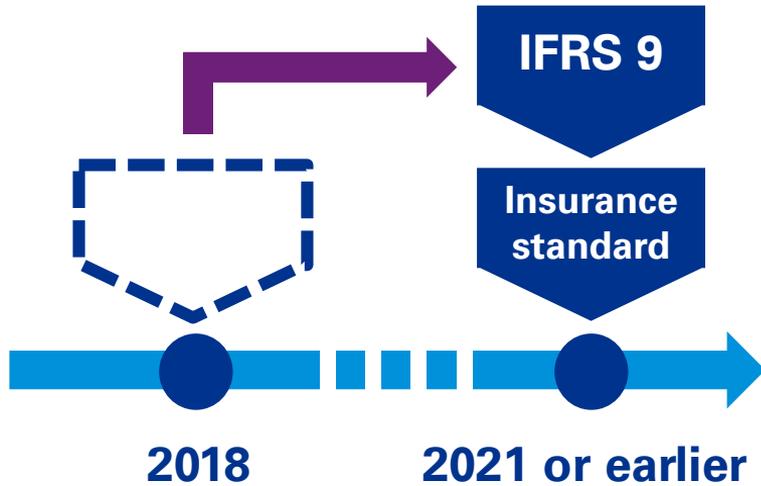**Temporary volatility and accounting mismatches**

and

IFRS 9

Insurance standard

2018

Expected 2020 or 2021

Two implementation projects in a short period

Optional solutions

Two solutions

Temporary exemption from IFRS 9

IFRS 9

Insurance standard

2018　　**2021 or earlier**

Overlay approach

FVTPL under IFRS 9

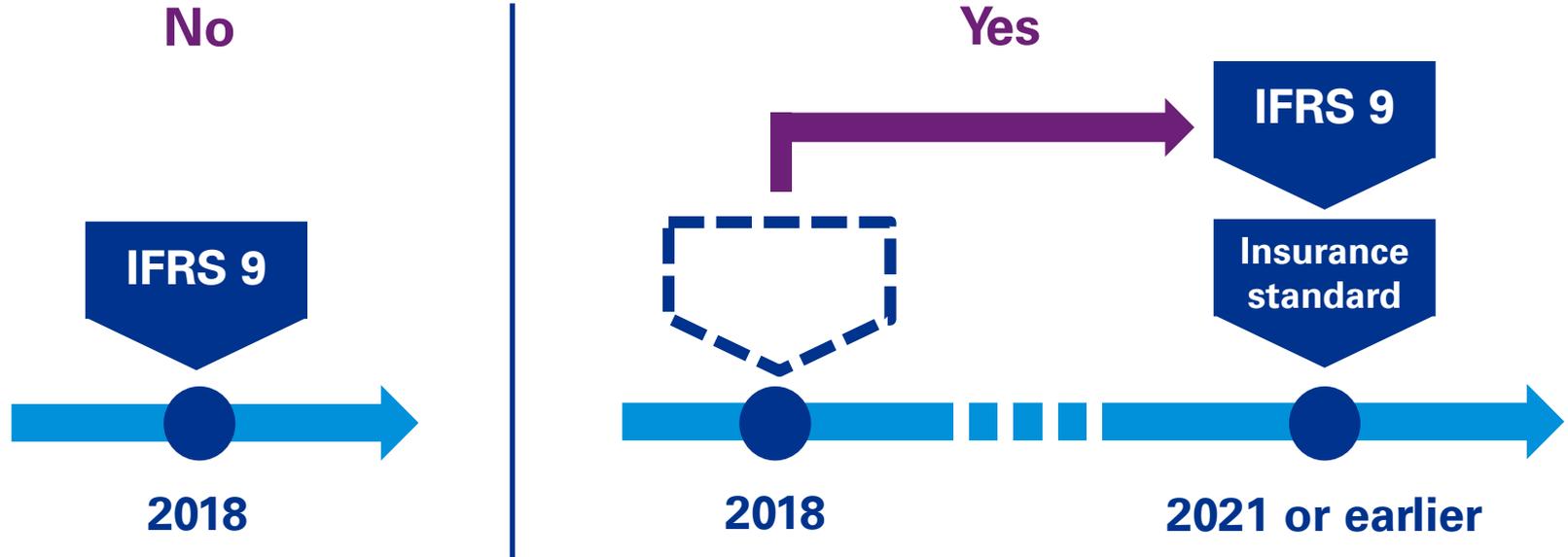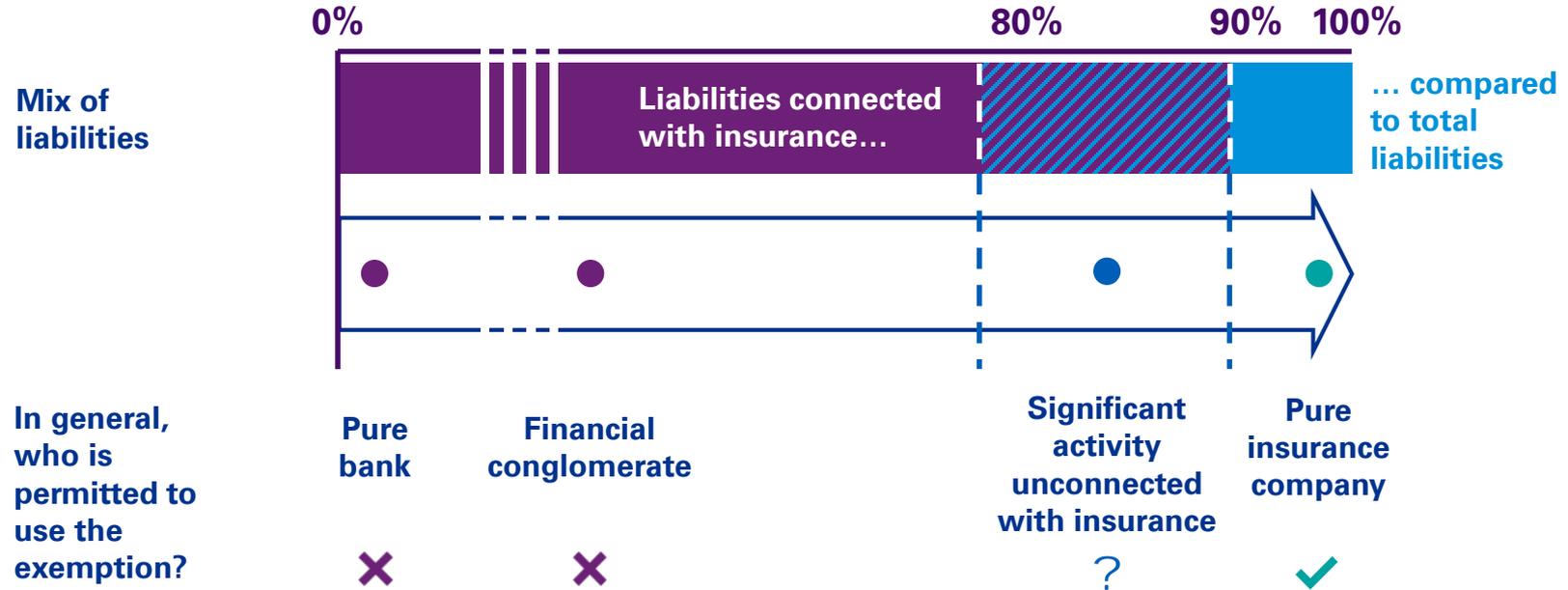− Impact of changes to FVTPL under IFRS 9

= Adjusted P&L

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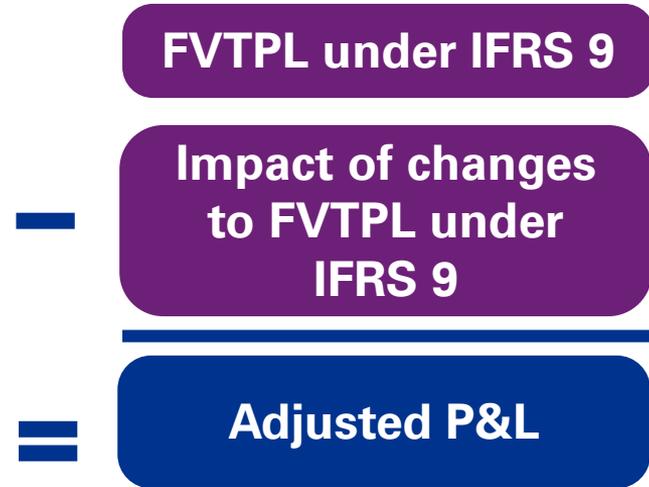
Temporary exemption
from IFRS 9

Qualifying for the temporary exemption

Are entity's activities predominantly 'connected with insurance'?

No

Yes

IFRS 9

IFRS 9

Insurance standard

2018

2018

2021 or earlier

Assessing predominance

Mix of liabilities — 0% … 80% … 90% … 100%

Liabilities connected with insurance… … compared to total liabilities

In general, who is permitted to use the exemption?

Pure bank	Financial conglomerate	Significant activity unconnected with insurance	Pure insurance company
✖	✖	?	✔

Complete assessment at the annual reporting date immediately before 1 April 2016

What are 'liabilities connected with insurance'?

Liabilities comprising…

Contracts within the scope of IFRS 4, including unbundled deposits and derivatives

Investment contracts measured and designated at FVTPL
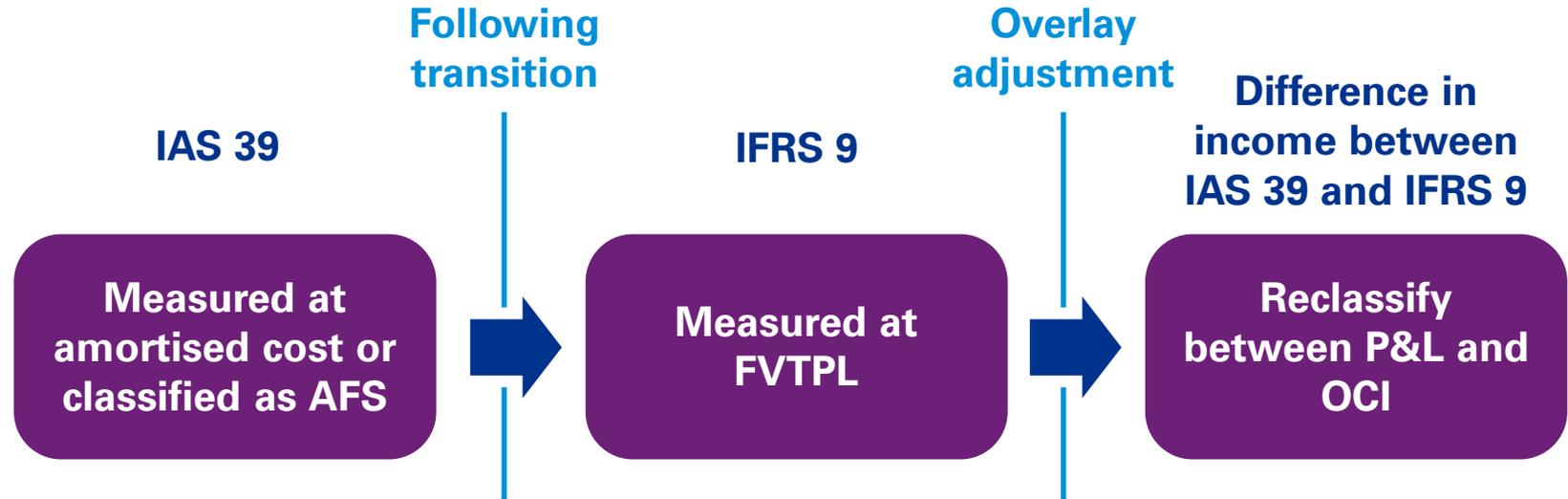
And…

Liabilities arising from issuing or fulfilling obligations under these contracts, such as debt included in regulatory capital
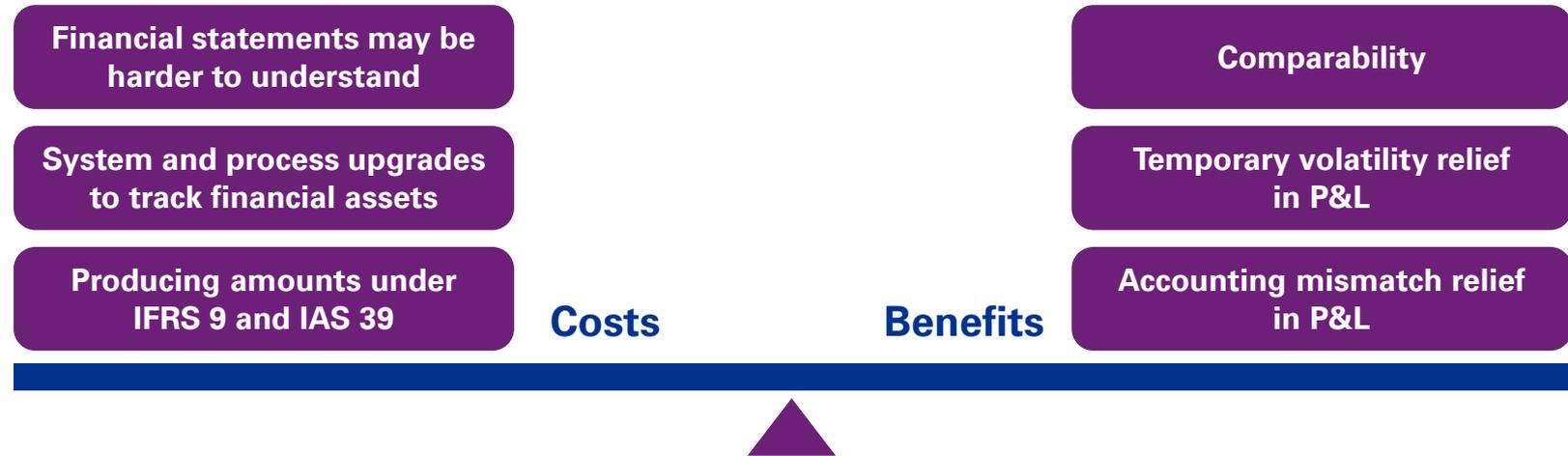
Overlay approach
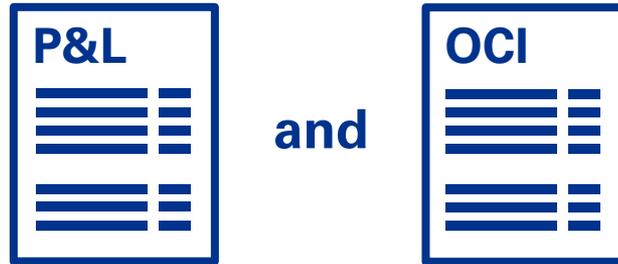
Overlay approach

For designated financial assets…

Following transition

Overlay adjustment

IAS 39

IFRS 9

Difference in income between IAS 39 and IFRS 9

Measured at amortised cost or classified as AFS	→	Measured at FVTPL	→	Reclassify between P&L and OCI

Weighing the costs and benefits

If you apply the overlay approach…

Financial statements may be harder to understand		Comparability
System and process upgrades to track financial assets		Temporary volatility relief in P&L
Producing amounts under IFRS 9 and IAS 39	**Costs** **Benefits**	Accounting mismatch relief in P&L

Presentation

A company should present the adjustment as a single line item in…

P&L

and

OCI

Click icon for an example

Disclosures

Disclosures

The objective is to enable users to understand…

Temporary exemption

How an entity qualified for the exemption

How to compare insurers applying IFRS 9 with those that aren't

Overlay approach

How the adjustment is calculated

The effect on the financial statements

Temporary exemption

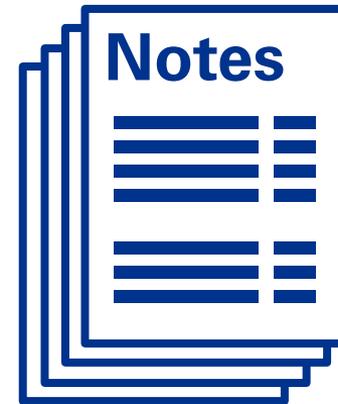**Companies applying the temporary exemption will need to disclose…**

Fair value information separately for:

— **Financial assets that meet the SPPI test unless held for trading or managed on a fair value basis, and**

— **All other financial assets**

Credit risk and quality information

Overlay approach

A company should disclose the effect of the adjustment on each individual P&L line item in the notes

Notes

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Effective dates and transition

Timeline A

If the new insurance standard is effective before 2021

12 September 2016
Amendments to IFRS 4 issued

1 January 2018
Effective date of amendments and IFRS 9

Effective date of new insurance standard

Full IFRS 9 required

1 January 2021

Companies may apply:
Temporary exemption
Overlay approach
Full IFRS 9

	12 September 2016	Effective date of new insurance standard	1 January 2021
Temporary exemption	✓	✗	✗
Overlay approach	✓	✗	✗
Full IFRS 9	✓	✓	✓

Timeline B

If the new insurance standard is effective after 2021
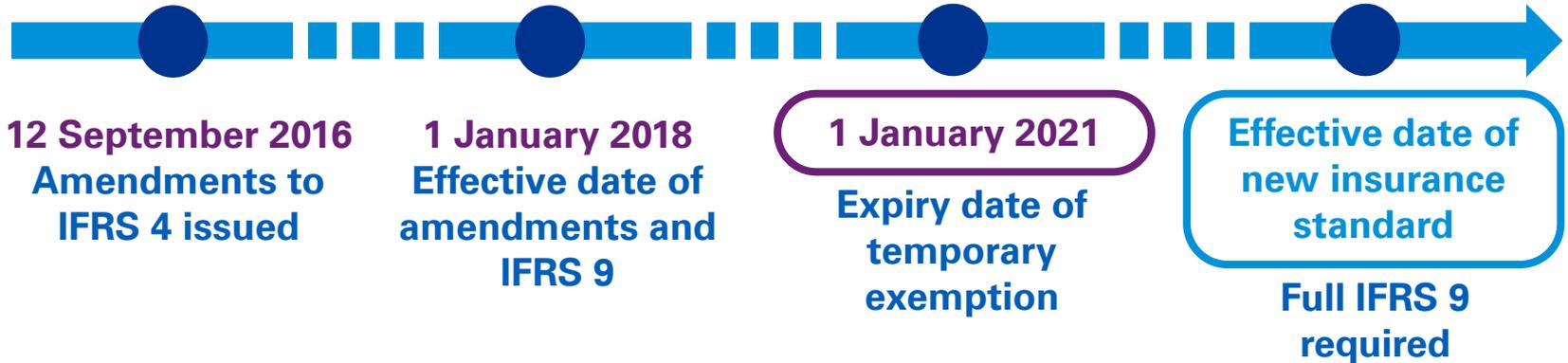
	12 September 2016 Amendments to IFRS 4 issued	1 January 2018 Effective date of amendments and IFRS 9	1 January 2021 Expiry date of temporary exemption	Effective date of new insurance standard Full IFRS 9 required
Companies may apply:				
Temporary exemption	✔		✘	✘
Overlay approach	✔		✔	✘
Full IFRS 9	✔		✔	✔

Transition

Additional requirements when a company…
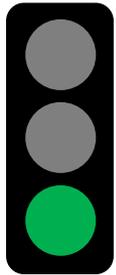
Starts applying an approach   **and**   **Stops applying an approach**
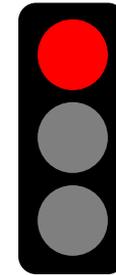
The amendments aim for consistency with IFRS 9

Next steps

Read our First Impressions on the amendments

Speak to your usual KPMG contact

Find out more at kpmg.com/ifrs

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