IASB issues amendments to IFRS 4 to address the different effective dates of IFRS 9 and IFRS 17

What you need to know

► The IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the upcoming new insurance contracts standard IFRS 17 (previously referred to as IFRS 4 Phase II).

► Entities issuing insurance contracts will still be able to adopt IFRS 9 on 1 January 2018.

► The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach.

► The temporary exemption enables eligible entities to defer the implementation date of IFRS 9.

The overlay approach allows an entity applying IFRS 9 from 2018 onwards to remove from profit or loss the effects of some of the accounting mismatches that may occur from applying IFRS 9 before IFRS 17 is applied.

Overview

On 12 September 2016, the International Accounting Standards Board (IASB or the Board) issued Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4) (the amendments). The amendments change the existing IFRS 4 Insurance contracts (IFRS 4) to allow entities issuing insurance contracts within the scope of IFRS 4 to mitigate certain effects of applying IFRS 9 Financial Instruments before the IASB’s new insurance contracts standard (referred to as IFRS 17 Insurance Contracts) becomes effective. The amendments help to resolve issues arising from the different effective dates for IFRS 9 (1 January 2018) and IFRS 17 (still to be decided, but not before 1 January 2020).
Reasons for issuing the amendments

In July 2014, the IASB issued the completed version of its new standard on financial instruments, IFRS 9, with an effective date of 1 January 2018. During the re-deliberations on the Board’s insurance contracts project, many constituents commented that the effective dates of IFRS 9 and IFRS 17 should be aligned. As a result of delays to the anticipated timetable of the insurance contracts project, the Board concluded that it would be impossible to issue IFRS 17 with an effective date aligned with IFRS 9 and decided instead to amend IFRS 4 to address constituents’ requests to permit insurers to defer the application of IFRS 9.

Constituents requested deferral of IFRS 9 because misaligned effective dates would give rise to the following:

1. Additional accounting mismatches and temporary volatility in profit or loss if IFRS 9 were applied before IFRS 17
2. Reassessment of the classification and measurement of financial assets under IFRS 9 when adopting IFRS 17 to minimise accounting mismatches
3. Two sets of major accounting change in a short space of time resulting in significant cost and effort for both users and preparers of financial statements

The Board evaluated these concerns and concluded that the existing options in IFRS 4 and the transition requirements in the future insurance contracts standard were not sufficient to address the issues raised.

The resulting amendments to IFRS 4 are intended to address accounting mismatches (and the resulting additional temporary volatility in profit or loss) arising from the different effective dates of IFRS 9 and IFRS 17. These amendments also address the concerns over the additional cost and effort for preparers and users of financial statements as a result of applying two consecutive sets of major accounting changes in a short period of time.

Overview of the amendments

Entities issuing insurance contracts will still be able to adopt IFRS 9 on 1 January 2018 without any further specific changes. In addition, the amendments introduce two alternative options that will allow entities issuing contracts within the scope of IFRS 4:

1. To apply a temporary exemption from applying IFRS 9 until the earlier of the effective date of a new insurance contracts standard and annual reporting periods beginning on or after 1 January 2021. This exemption will only be available to entities whose activities are predominantly connected with insurance (temporary exemption)

Or

2. Adopt IFRS 9 but, for designated financial assets, remove from profit or loss the effects of some of the accounting mismatches that may occur before IFRS 17 is implemented (overlay approach)

The amendments make these alternative options part of IFRS 4, rather than changing IFRS 9.

Temporary exemption

The temporary exemption can only be applied by a reporting entity if its activities are predominantly connected with insurance, and it has not applied IFRS 9 previously. As the exemption is meant to be temporary, it will not be available for reporting periods starting on or after 1 January 2021.

Predominance assessment

The assessment for whether a reporting entity’s activities are predominantly connected with insurance is based on the liabilities connected with insurance in proportion to the entity’s total liabilities. For this purpose, liabilities connected with insurance comprise:

1. Liabilities arising from contracts within the scope of IFRS 4, which include any deposit components or embedded derivatives that are unbundled from insurance contracts in accordance with IFRS 4
2. Non-derivative investment contract liabilities measured at fair value through profit or loss applying IAS 39 Financial Instruments: Recognition and Measurement

1 The existing IFRS 4 allows entities to change accounting policies voluntarily for insurance contracts if the change makes the financial statements more relevant to the economic decision-making needs of users, but no less reliable (or vice versa). In addition, the existing IFRS 4 allows the selection of current market interest rates for the discounting of insurance liabilities and the adoption of shadow accounting.

2 As part of its insurance contracts project, the Board plans to include transition provisions in the new insurance contracts standard that allow insurers to revisit certain areas of the classification and measurement of financial assets under IFRS 9 when adopting the new insurance contracts standard.

3 IFRS 9 allows an entity to early apply the “own credit” requirements for non-derivative financial liabilities before the final version of IFRS 9 is applied. These provisions require an entity to present in OCI the fair value gains and losses attributable to changes in the entity’s own credit risk for non-derivative financial liabilities designated as measured at FVPL. An entity may still choose to apply the temporary exemption if it early applied these ‘own credit’ requirements or decide to early adopt these requirements in a later year and continue to apply the temporary exemption.

How we see it

Insurers will welcome the possibility to defer implementation of IFRS 9 until IFRS 17 becomes effective (or, if earlier, 1 January 2021). Even though there will be reduced comparability between insurers and other entities that apply IFRS 9 for a number of years, the IASB’s desire to address the consequences of having different effective dates for IFRS 17 and IFRS 9 is understandable. The solution will be optional so companies can still apply IFRS 9 without an adjustment starting 1 January 2018.

Insurance groups will need to finalise their analyses to determine whether they are eligible for the temporary exemption and what the impact of IFRS 9 will be at group level. In addition, insurance groups will also need to evaluate whether the temporary exemption would be available for the individual financial statements of any subsidiaries within the group.

The effective date of IFRS 9 (1 January 2018) is approaching rapidly, therefore, insurance companies need to conclude which approach they will take towards applying IFRS 9 together with IFRS 17 as soon as possible.
3. Liabilities that arise because the insurer issues, or fulfils, obligations arising from the contracts in (1) and (2) above

The amendments mention as examples of items that will qualify under point (3) above, the following: derivatives used to mitigate risks arising from those contracts referred to under points (1) and (2) and from the assets backing those contracts; relevant tax liabilities such as the deferred tax liabilities for temporary taxable differences on liabilities arising from those contracts; and debt issued that is included in the insurer’s regulatory capital as liabilities that arise to fulfil contracts within the scope of IFRS 4.

An entity may elect the temporary exemption if, and only if:

- The carrying amount of its liabilities arising from contracts included under (1) above, is significant compared to the total carrying amount of all its liabilities
- The percentage of the total carrying amount of its liabilities connected with insurance, included under (1) through (3) above, relative to the total carrying amount of all of its liabilities is
  1. Greater than 90 per cent
  Or
  2. 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

In assessing whether the entity does not engage in a significant activity unconnected with insurance, it should consider quantitative or qualitative factors (or both), including publicly available information such as the industry classification that users of financial statements apply to the insurer. When performing this assessment, the entity only takes into account those activities from which it may earn revenues and incur expenses. Diagram 1 illustrates the possible outcomes of the assessment of the eligibility for the temporary exemption.

**Diagram 1: Assessment of eligibility for temporary exemption**

<table>
<thead>
<tr>
<th>Predominance percentage</th>
<th>Insurance liabilities, Investment contracts with DPF, IAS 39 liabilities as at FVPL</th>
<th>‘Other liabilities’ connected with insurance activities</th>
<th>Liabilities not connected with insurance activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>90%</td>
<td>![Green Check Mark]</td>
<td>![Question Mark]</td>
<td>![Red X]</td>
</tr>
<tr>
<td>80%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Additional Assessment:
- Qualitative
- Quantitative

The Board decided that an entity should calculate the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all of its liabilities (the predominance percentage) using the carrying amounts of liabilities reported on its balance sheet at the annual reporting date after 31 March 2015 and before 1 April 2016 (i.e., the initial assessment date). This time frame is intended to reduce uncertainty about whether an entity needs to adopt IFRS 9 in 2018, and thereby provide time to plan for implementation.
Example 1: Calculation of the predominance percentage

A reporting entity has the following gross liabilities at its financial statements for the period ending 31 December 2015:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>CU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance contract liabilities</td>
<td>500</td>
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<tr>
<td>Investment contract liabilities at FVPL</td>
<td>200</td>
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<tr>
<td>Debt issued for regulatory capital purposes</td>
<td>100</td>
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<tr>
<td>Derivatives used for hedges of insurance liabilities</td>
<td>60</td>
</tr>
<tr>
<td>Deferred tax liabilities on insurance contract liabilities</td>
<td>50</td>
</tr>
<tr>
<td>Banking liabilities (e.g., customer deposits)</td>
<td>90</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>1,000</td>
</tr>
</tbody>
</table>

Predominance percentage = 91% (i.e., (500+200+100+60+50)/1,000).

Therefore, the reporting entity qualifies for the temporary exemption from IFRS 9.

Reassessment of predominance

An entity that elected to apply the temporary exemption will be required to reassess whether its activities are still predominantly connected with insurance if, and only if, there has been a change in the activities of the entity that results in starting or ending 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, the IASB expects changes in business that lead to a reassessment of predominance to be very infrequent.

Upon reassessment, an entity should re-calculate the predominance percentage at the end of the annual reporting period in which the change in activities takes place. If the entity concludes that its activities are no longer predominantly connected with insurance, the entity is required to apply IFRS 9 from the earlier of:

- The beginning of its second annual period after the change in activities that changed its predominant activities

Or

- Its annual reporting period that begins on or after the fixed expiry date of the temporary exemption (annual reporting periods beginning on or after 1 January 2021).

An entity that, upon the initial predominance assessment (made using the carrying amounts of liabilities reported at the annual reporting date after 31 March 2015 and before 1 April 2016), did not qualify for the temporary exemption is allowed to reassess predominance at an annual reporting date before 31 December 2018 if, and only if, there was a change in the insurer’s activities.

Level of assessment

The temporary exemption applies to all financial instruments at the reporting entity level. A conglomerate financial institution would determine whether it is eligible for the temporary exemption approach on the basis of the consolidated financial statements of the conglomerate. If this reporting entity then chooses to apply the temporary exemption, all the financial instruments in the consolidated financial statements of the reporting entity will continue to be accounted for under IAS 39 Financial Instruments: Recognition and Measurement.

Subsidiaries within the conglomerate that issue their own (separate, individual or consolidated) IFRS financial statements would assess the eligibility criteria at their reporting entity level for the purpose of their financial statements.

Diagram 2 provides an overview of the application of the temporary exemption at the reporting entity level.

Diagram 2: Determining eligibility at the reporting entity level

- If the predominant activity of the conglomerate is an insurance business
  - The conglomerate could have the **option** to continue to apply IAS 39 to all financial assets in consolidated financial statements
  - However, if Subsidiary B publishes stand-alone financial statements, it **must** apply IFRS 9

- If the predominant activity of the conglomerate is **not** an insurance business
  - The conglomerate **must** apply IFRS 9 to all financial assets in consolidated financial statements
  - However, if Subsidiary A publishes stand-alone financial statements, it could have the **option** to continue to apply IAS 39

Source: IASB Project Overview “Application of the new accounting requirements for financial assets by insurers”
The amendment does not allow determination of eligibility for, and application of, the temporary exemption below the reporting entity level in the financial statements of that reporting entity. The Board concluded that application below the reporting entity level would be challenging and complex as a result of, for example, the simultaneous application of IAS 39 and IFRS 9 by the same entity, the existence of different legal definitions of an insurance entity, and the possibility of transfers of financial assets between different components of a reporting entity.

The amendment provides an exemption from applying uniform accounting policies within a group when applying the equity method under IAS 28 Investment in Associates and Joint Ventures in the following situations:

► The entity applies IFRS 9, but its associate or joint venture applies the temporary exemption from IFRS 9

Or

► The entity applies the temporary exemption from IFRS 9, but its associate or joint venture applies IFRS 9

In the former situation, an entity applies IFRS 9, but is permitted to use the IAS 39 figures of an associate or joint venture when accounting for that investment under the equity method. In the latter situation, an entity applies the temporary exemption from IFRS 9, but is permitted to use the IFRS 9 figures of an associate or joint venture when accounting for that investment under the equity method.

This exemption to uniform accounting policies under IAS 28 is available on an investment-by-investment basis.

Disclosure

Because the Board decided that the temporary exemption should be optional rather than mandatory, it requires disclosures that both explain how an entity qualified for the temporary exemption, and allow comparison with other entities applying IFRS 9.

If a reporting entity chooses to apply the temporary exemption, it must disclose this fact along with an explanation of how it determined its eligibility, in particular:

► If the carrying amount of its liabilities arising from contracts within the scope of IFRS 4 is 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 IFRS 4

► If the percentage of its liabilities connected with insurance to the total carrying amount of all its liabilities is less than or equal to 90 per cent but greater than 80 per cent, how the entity determined that it has no significant activity that is unconnected with insurance, including what information it considered

If an entity’s activities connected with insurance would become predominant after a reassessment before 1 January 2018 and it elects to use the temporary exemption for its annual reporting period starting 1 January 2018, the entity discloses the reason for reassessment, a detailed explanation on why it is eligible for the temporary exemption, and the date on which the related change in its activities took place.

If an entity’s activities connected with insurance would no longer be predominant and it would have to start applying IFRS 9 from the beginning of the next annual reporting period, the entity discloses the fact that it has no longer eligible for the temporary exemption a detailed explanation why it is no longer eligible, and the date on which the related change in its activities took place.

To enable comparison with entities applying IFRS 9, an entity needs to disclose information about where a user can obtain any publicly available IFRS 9 information that relates to an entity within the group that is not provided in the consolidated financial statements of that entity. For example, such IFRS 9 information could be obtained from the publicly available individual (or separate) financial statements of a company within the group that has applied IFRS 9 (e.g., a banking subsidiary).

To provide information on the characteristics of its financial assets, an entity will need to disclose the fair value at the end of the reporting period and the amount of change in the fair value during the period for the following two groups of financial assets separately:

1. Financial assets that would meet the “solely payments of principal and interest” (SPPI) characteristic test in IFRS 9 (but excluding any financial assets that meet the definition of held for trading in IFRS 9 or are held at fair value through profit and loss because they are managed and performance is evaluated on a fair value basis)

2. All financial assets other than those included in (1)

In addition, an entity needs to disclose information about the credit characteristics of financial assets by presenting:

► For all financial assets included in (1) above, the gross carrying amounts under IAS 39 aggregated by credit risk rating grades as defined in IFRS 7 (in the case of financial assets measured at amortised cost, before deducting any impairment amounts)

► For financial assets included in (1) above that do not have low credit risk as defined in IFRS 9, the fair value and the gross carrying amounts under IAS 39

If an entity applies the temporary exemption from IFRS 9 when accounting for its investment in an associate or joint venture using the equity method, the entity must provide the temporary exemption disclosures for:

► Each of those associates or joint ventures that is material to the entity, showing the amounts included in the IFRS financial statements of the associate or joint venture after reflecting any adjustments made by the entity when using the equity method (rather than the entity’s share of those amounts)

► All of those associates or joint ventures that are individually immaterial, showing the entity’s share of those amounts included by applying the equity method with disclosure of aggregate amounts for associates and joint ventures separately
How we see it
Preparation for the disclosures under the temporary exemption will require significant effort, in particular, with respect to implementing processes and systems for the SPPI test and for determining which assets do not have “low credit risk”.

While the amendment does not require quantitative disclosures for financial assets that are managed on a fair value basis, it does not make any reference to exempting assets that are carried at fair value through profit and loss (FVPL) on the basis of a designation to avoid an accounting mismatch. This implies that companies will need to apply the SPPI test to such assets, even though these assets are currently measured as at FVPL under IAS 39 and may also be continued to be measured on that basis under IFRS 9.

Transition
An entity will have the option to stop applying the temporary exemption at the beginning of any annual reporting period before IFRS 17 becomes effective. An entity will be required to stop applying the temporary exemption for annual reporting periods beginning or after 1 January 2021 or, if earlier, when it no longer qualifies based on a change in the activities. When an entity stops applying the temporary exemption and applies IFRS 9, the entity should follow the transition provisions in IFRS 9.

Overlay approach
The overlay approach can be applied by an entity that both issues contracts in the scope of IFRS 4 and applies IFRS 9. The overlay approach allows an insurance entity to exclude from profit or loss certain effects of IFRS 9 and reclassify these amounts to other comprehensive income (OCI) for certain financial assets. The following financial assets are eligible for designation under the overlay approach:

- Assets measured at FVPL applying IFRS 9 which would not have been measured at FVPL in its entirety applying IAS 39
- Assets except for those held in respect of an activity that is unconnected with contracts within the scope of IFRS 4.

Eligible financial assets can be designated for the overlay approach on an instrument-by-instrument basis. The amendments refer to such assets as “designated financial assets”.

The amount reclassified to OCI (overlay adjustment) for designated financial assets is determined as the difference between:

- The amount reported in profit or loss in accordance with IFRS 9
- The amount that would have been reported in profit or loss if the entity had applied IAS 39

As a result, an entity applies IFRS 9 in the Statement of Financial Position (SFP, or balance sheet) and the Statement of Comprehensive Income (SCI), but eliminates the additional impact of IFRS 9 in profit or loss for all financial assets to which the overlay approach is applied (i.e., the designated financial assets). Accordingly, profit or loss would be the same as it would have been under IAS 39 for designated financial assets and the profit or loss amount reported by the entity contains a mix of IFRS 9 and IAS 39 measurements for financial assets. For example, impairments would be based on the incurred loss model under IAS 39 for financial assets to which the overlay approach is applied and on the expected credit loss model under IFRS 9 for other instruments.

Designation
An instrument-by-instrument designation means that an entity is not required to apply the overlay approach to all financial assets that are eligible. Instead, the entity can choose to which eligible financial assets it applies the overlay approach. The Board concluded that there may be eligible financial assets for which the entity might reasonably decide that the cost of applying the overlay adjustment outweighs any benefits in reducing volatility in profit or loss.

The initial designation of a financial asset as relating to contracts within the scope of IFRS 4 should be retained until the asset is derecognised by the entity. However, if an entity previously designated an asset under the overlay approach, but the asset is no longer used for an activity that is connected with contracts within the scope of IFRS 4, the entity is required to de-designate this asset. For example, an asset that is transferred from an insurance business segment to a non-insurance business segment. Furthermore, an entity may newly designate a financial asset if circumstances change and the asset meets the eligibility criteria for the overlay approach after the change but did not do so before. This would be the case if an asset was previously held for an activity that is unconnected with contracts within the scope of IFRS 4 but has now been transferred to an insurance activity.

When a financial asset first meets the eligibility criteria and the entity elects to apply the overlay approach to the asset, it must do so on a prospective basis. The newly designated asset’s fair value at the date of designation will be its new amortised cost carrying amount, with the effective interest rate to be determined on the basis of that fair value. When a financial asset no longer meets the eligibility criteria, the amount of the overlay adjustment in accumulated OCI for that asset will be immediately reclassified (recycled) to profit or loss.

To address any concerns about the potential to transfer or redesignate financial assets, the Board has not yet determined an effective date for the new insurance contracts standard.
financial assets to achieve a particular accounting outcome, entities will have to disclose the effects on profit or loss and OCI of financial assets that move in and out of the overlay approach as a result of transfers within the group or re-designation (see below).

**Presentation and disclosure**

The entity must present a separate line item for the amount of the overlay adjustment in profit or loss, as well as a separate line item for the corresponding adjustment in OCI. As such, the Board requires an explicit presentation of the overlay adjustment on the face of the SCI.

An entity that applies the overlay approach will have to make disclosures for each reporting period about the fact that it applies the overlay approach, the classes and carrying amounts of financial assets to which it applies the overlay approach, and the basis for the assets to which the overlay adjustment is applied.

The amendments also require that entities provide an explanation of the amount of the total overlay adjustment in each period in a way that enables users of the financial statements to understand how it is derived, including the total amounts that would be recognized in profit or loss under IAS 39 and IFRS 9. The entity must also disclose the effect the overlay adjustment has on each affected line item in profit or loss.

If an entity changed the designation of financial assets during the reporting period, it must disclose:

- For newly designated assets: the amount of overlay adjustment in profit or loss and OCI in the period
- For de-designated assets:
  - The amount of overlay adjustment that would have arisen in profit or loss and OCI in the period if financial assets had not been de-designated
  - The amount of overlay adjustment in the period related to the reclassification of amounts in accumulated OCI to profit or loss

If an entity applies the overlay approach for its investment in an associate or joint venture accounted for under the equity method, the entity must provide the overlay disclosures for:

- Each of those associates or joint ventures that is individually material to the entity’s financial statements, showing the amounts included in the IFRS financial statements of the associate or joint venture after reflecting any adjustments made by the entity when using the equity method (rather than the entity’s share of those amounts)
- All of those associates or joint ventures that are individually immaterial but are material in aggregate to the entity’s financial statements, showing the entity’s share of those amounts included by applying the equity method with disclosure for aggregate amounts for associates and joint ventures separately

**Transition**

An entity may start applying the overlay approach when it applies IFRS 9 for the first time. On transition to IFRS 9, the overlay approach, if selected, must be applied retrospectively to designated financial assets, resulting in an adjustment to the opening accumulated OCI of the earliest period presented based on the difference between:

- The fair value of financial assets to which the overlay approach is applied
- The carrying amount of these assets determined in accordance with IAS 39 immediately prior to transition to IFRS 9

If an entity restates comparatives under IFRS 9, it should also restate comparative amounts for the overlay adjustment.

**First time Adopters**

The amendment permits an entity that applies IFRS for the first time in its financial statements (first-time adopter or FTA) to apply either:

- The temporary exemption if the entity meets the qualifying criteria. To assess whether it meets the predominance criterion on the date of initial assessment (i.e., the annual reporting date after 31 March 2015 and before 1 April 2016) the FTA must use the carrying amounts of liabilities applying applicable IFRS standards

Or

- The overlay approach to designated financial assets. An FTA that applies the overlay approach must restate comparative information to reflect the overlay approach when it restates comparative information in accordance with the provisions in IFRS 1 on restatement of comparative information for IFRS 9

Under the temporary exemption, an FTA applies IAS 39 to its financial statements rather than IFRS 9 when adopting IFRS.

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5 IFRS 9 allows an entity to early apply the ‘own credit’ requirements for non-derivative financial liabilities before the final version of IFRS 9 is applied. An entity may still choose to apply the overlay approach if it early applied these ‘own credit’ requirements.
Effective date

The amendments will become effective for reporting periods beginning on or after 1 January 2018. Early adoption of the amendments is permitted if an entity adopts IFRS 9 early. The temporary exemption and the overlay approach will only be available to an entity if it has not previously applied IFRS 9.

Diagram 3 summarises the various implementation routes an entity may choose from, based on three potential scenarios for the effective date of IFRS 17.

### Diagram 3: Potential implementation routes

<table>
<thead>
<tr>
<th>IFRS 17 effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>2018</td>
</tr>
<tr>
<td>2019</td>
</tr>
<tr>
<td>2020</td>
</tr>
<tr>
<td>2021</td>
</tr>
<tr>
<td>2022</td>
</tr>
</tbody>
</table>

#### Scenario A: 2020

- Option 1: IFRS 9
- Option 2: IFRS 9 plus Overlay
- Option 3: IFRS 9 Deferral

#### Scenario B: 2021

- Option 1: IFRS 9
- Option 2: IFRS 9 plus Overlay
- Option 3: IFRS 9 Deferral

#### Scenario C: 2022

- Option 1: IFRS 9
- Option 2: IFRS 9 with Overlay
- Option 3: IFRS 9 Deferral

### Interaction with transition provisions for financial assets in IFRS 17

Upon adoption of IFRS 17, an entity will either already be applying IFRS 9 or will have to stop applying IAS 39 and adopt IFRS 9 at that moment. Taking into consideration the interaction between insurance liabilities and the assets backing these liabilities, the Board tentatively decided it will include transitional provisions for the classification and measurement of financial assets in IFRS 17. These transitional provisions would allow the entity to:

- Make designations and de-designations of financial assets under the Fair Value Option and the OCI presentation election for investments in equity instruments

#### What’s next

The Board’s next critical step for its insurance contracts project will be to issue IFRS 17, this is expected to be in the first half of 2017.

An entity that adopts IFRS 9 at the same time it adopts IFRS 17 will be able to apply the transitional provisions of IFRS 9, which also include certain designations and de-designations of financial assets.
### Area IFRS contacts:

<table>
<thead>
<tr>
<th>Region</th>
<th>Name</th>
<th>Telephone</th>
<th>E-mail</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Kevin Griffith</td>
<td>+ 44 20 7951 0905</td>
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<tr>
<td><strong>Europe, Middle East, and India and Africa</strong></td>
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