

29 February 2016

Global Mindset, Asian Insights

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom*(By online submission)*

Dear Sirs,

**RESPONSE TO EXPOSURE DRAFT (ED) - APPLYING IFRS 9 FINANCIAL INSTRUMENTS WITH IFRS 4 INSURANCE CONTRACTS**

ISCA sought views from its members on the above ED through a one-month public consultation and from the ISCA Insurance Committee which includes experienced technical accounting professionals from large accounting firms.

**General**

In general, we support the IASB's initiative to take appropriate steps to address the consequences of having different effective dates for IFRS 9 and IFRS 4 Phase II and including the possibility to defer IFRS 9 until IFRS 4 Phase II becomes effective at the option of the companies, even though we note that there will be the disadvantage of reduced comparability during the intervening period.

On the other hand, we wish to highlight to the IASB that Singapore will achieve full convergence with IFRS for Singapore companies listed on the Singapore Exchange (SGX) for annual periods beginning on or after 1 January 2018, which coincides with the effective date of IFRS 9. Notwithstanding that, the Singapore Financial Reporting Standards (SFRS) is currently regarded to be largely aligned with IFRS.

This is not without merit, as the IASB has already categorised Singapore as a jurisdiction which "requires IFRS for all or most domestic publicly accountable entities". IASB has also endorsed Singapore as having adopted all effective IFRS as SFRS, with the exception of IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments, and with several modifications primarily to transition provisions and effective dates. It is stated in the ED that IASB does not allow first time adopters of IFRS to use the proposed temporary exemption from applying IFRS 9.

A strict interpretation of "first time adopter" by assuming these entities are adopting the generally accepted accounting principles of IFRS for the first time in 2018 would mean that Singapore-incorporated insurance companies that are listed on the SGX will not be able to avail of the temporary reliefs being proposed by the IASB when such companies apply the new framework – including IFRS 9 – for the first time. This in turn limits the options available to these companies for addressing the consequences of having different effective dates for IFRS 9 and IFRS 4 Phase II. Further, should all insurance companies listed on SGX be precluded from taking advantage of the temporary reliefs provided by IASB, it would lead to

the unintended consequence of reduced comparability between the financial statements of the listed insurer and those of its unlisted peers.

Given the unique situation for Singapore-incorporated listed insurance companies as described above, we urge the IASB to exercise greater discretion when determining the scope of entities prohibited from using the proposed exemption from applying IFRS 9.

Our comments to the specific questions in the ED are as follows:

**Question 1- Addressing the concerns raised**

Paragraphs BC9–BC21 describe the following concerns raised by some interested parties about the different effective dates of IFRS 9 and the new insurance contracts Standard:

(a) Users of financial statements may find it difficult to understand the additional accounting mismatches and temporary volatility that could arise in profit or loss if IFRS 9 is applied before the new insurance contracts Standard (paragraphs BC10–BC16).

(b) Some entities that issue contracts within the scope of IFRS 4 have expressed concerns about having to apply the classification and measurement requirements in IFRS 9 before the effects of the new insurance contracts Standard can be fully evaluated (paragraph BC17–BC18).

(c) Two sets of major accounting changes in a short period of time could result in significant cost and effort for both preparers and users of financial statements (paragraphs BC19–BC21).

The proposals in this Exposure Draft are designed to address these concerns.

Do you agree that the IASB should seek to address these concerns? Why or why not?

We agree that IASB should address the concerns described in (a), (b) & (c), especially with regards to two major accounting changes in a short period of time (c). Frequent changes that are not well understood by users of financial statements will affect the confidence in the industry. Entities that issue contracts within the scope of IFRS 4 are mostly insurers who apply asset-liability matching techniques to ensure that their insurance liabilities are economically hedged with the financial assets held. Therefore, they would like to see appropriate reporting of the financial performance from their underwriting and investing activities and for the accounting to reflect the impact of its economic hedging activities in their financial statements.

**Question 2- Proposing both an overlay approach and a temporary exemption from applying IFRS 9**

The IASB proposes to address the concerns described in paragraphs BC9–BC21 by amending IFRS 4:

(a) to permit entities that issue contracts within the scope of IFRS 4 to reclassify from profit or loss to other comprehensive income some of the income or expenses arising from designated financial assets that:

- (i) are measured at fair value through profit or loss in their entirety applying IFRS 9 but
- (ii) would not have been so measured applying IAS 39 (the ‘overlay approach’) (see paragraphs BC24–BC25);

(b) to provide an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 (the ‘temporary exemption from applying IFRS 9’) (see paragraphs BC26–BC31).

Do you agree that there should be both an overlay approach and a temporary exemption from applying IFRS 9? Why or why not?

If you consider that only one of the proposed amendments is needed, please explain which and why.

Even though there will be reduced comparability in the financial statements of companies that issue contracts within the scope of IFRS 4 given that these companies are given options on how they can address the consequences of having different effective dates for IFRS 4 and 9, we still agree and welcome IASB’s proposed solutions that there should be both an overlay approach and temporary exemption from applying IFRS 9.

With the overlay approach and the temporary exemption from applying IFRS 9, issuers of contracts within the scope of IFRS 4 are given three possible means of dealing with the difference in the effective dates of IFRS 4 and 9, namely, adopt IFRS 9 in 2018 like all other entities or adopt IFRS 9 with an overlay or defer implementation of IFRS 9. Both the overlay approach and the temporary exemption from applying IFRS 9 should be offered to entities on an optional basis as facts and circumstances differ from entity to entity. Entities should be allowed to decide for themselves which is the better option, after weighing the cost and benefit of applying IFRS 9, IFRS 4 and at the same time managing the inherent uncertainty in the accounting mismatch brought about by IFRS 9.

### **Question 3- The overlay approach**

Paragraphs 35A–35F and BC32–BC53 describe the proposed overlay approach.

(a) Paragraphs 35B and BC35–BC43 describe the assets to which the overlay approach can be applied.

Do you agree that the assets described (and only those assets) should be eligible for the overlay approach? Why or why not? If not, what do you propose instead and why?

(b) Paragraphs 35C and BC48–BC50 discuss presentation of amounts reclassified from profit or loss to other comprehensive income applying the overlay approach.

Do you agree with the proposed approach to presentation? Why or why not? If not, what do you propose instead and why?

(c) Do you have any further comments on the overlay approach?

(a) We agree that the assets described in Paragraphs 35B and BC35-BC43 (and only those assets) i.e. "financial assets that are designated as relating to contracts that are within the scope of IFRS 4", should be eligible for the overlay approach. We also propose leveraging the business model concept in IFRS 9 for guidance in determining and identifying the relevant financial assets.

(b) We agree with the presentation approach proposed in Paragraphs 35C and BC48- BC50. We are of the view that disclosing the reclassification impact also help users of financial statements to better understand what would be the impact to profit or loss should full implementation of IFRS 9 be applied.

(c) We have no further comments.

### **Question 4- The temporary exemption from applying IFRS 9**

As described in paragraphs 20A and BC58–BC60 the Exposure Draft proposes that only entities whose predominant activity is issuing contracts within the scope of IFRS 4 can qualify for the temporary exemption from applying IFRS 9.

(a) Do you agree that eligibility for the temporary exemption from applying IFRS 9 should be based on whether the entity's predominant activity is issuing contracts within the scope of IFRS 4? Why or why not? If not, what do you propose instead and why?

As described in paragraphs 20C and BC62–BC66, the Exposure Draft proposes that an entity would determine whether its predominant activity is issuing contracts within the scope of IFRS 4 by comparing the carrying amount of its liabilities arising from contracts within the scope of IFRS 4 with the total carrying amount of its liabilities (including liabilities arising from contracts within the scope of IFRS 4).

(b) Do you agree that an entity should assess its predominant activity in this way? Why or why not? If you believe predominance should be assessed differently, please describe the approach you would propose and why.

Paragraphs BC55–BC57 explains the IASB’s proposal that an entity would assess the predominant activity of the reporting entity as a whole (ie assessment at the reporting entity level).

(c) Do you agree with the proposal that an entity would assess its predominant activity at the reporting entity level? Why or why not? If not, what do you propose instead and why?

We believe that if the IASB’s intention is to provide a solution to the insurance industry, the scope should be sufficiently broad for this purpose. Threshold and design of predominance condition test are matters that require ample consideration based on the feedback from both preparers and users. The current proposal defines a very narrow scope of eligible entities and should be refined.

Also, the ED states that a re-assessment of predominance condition is necessary if there is a demonstrable change in corporate structure, e.g. acquisitions or disposals. We understand the IASB’s reason for reassessment, but note, in case of a change in conclusion, starting to apply IFRS 9 from the beginning of the next annual reporting period may be extremely challenging due to the short preparation time.

(a) Yes, we agree that the eligibility for the temporary exemption from applying IFRS 9 should be based on whether the entity’s predominant activity is issuing contracts within the scope of IFRS 4 because these are the entities that are impacted significantly by the consequences of having different effective dates for IFRS 4 and 9 implementation.

(b) While IASB suggested a metric by comparing the carrying amount of liabilities arising from issuing contracts within the scope of IFRS 4 with the total carrying amount of liabilities to determine if the predominant condition is met, we are of the view that having a single basis for the predominance condition test is too narrow a definition since it creates a bright line that is based on a single quantitative factor. The IASB can address this by broadening the scope and criteria for eligibility to the deferral approach. It can consider further refinements in the following areas:

- (i) Consideration of other quantitative metrics: Sole reliance on a single metric may result in the unintended consequence of certain entities issuing contracts under IFRS 4 not qualifying for the temporary exemption. There may be situations where the IFRS 4 liabilities may be relatively smaller than the other liabilities due to duration of policies, timing of expected premiums and claims and also other liabilities such as restructuring expenses. This might prevent some entities that consider their main business to be insurance from applying the temporary exemption. The scope of the testing should be sufficiently broad to cater for different types of insurance entities – Life, non-life, etc.

In addition to the currently proposed metric, we would like to suggest that the IASB consider other alternative metrics which could include one of the following refinements to the current metric proposed in the ED:

- A. Inclusion of other insurance related liabilities: Insurance liabilities relating to IFRS 4 contracts and insurance-related payables (this would include payables relating to the insurance contracts i.e. claims, commissions, reinsurance payables etc) should be included in the numerator.
  - B. Adjustment for one-off charges: During the course of the year, an insurance entity may incur massive one-off charges (i.e. restructuring charges) which could cause its overall liability to increase significantly such that it would not qualify for temporary exemption. These one-off charges should be excluded from the denominator.
- (ii) Consideration of qualitative factors: IASB may also wish to consider allowing entities to consider qualitative factors such as the principal activity of the entity (which would already be disclosed in the financial statements) when assessing if the entity qualifies for the temporary exemption. Guidance could be provided on what some other of these qualitative factors might be.
- (c) The IASB proposal for an entity to assess its predominant activity at the reporting entity level would enable consistency in reporting since it will limit the applicability of the temporary exemption so that IFRS 9 can be fully implemented as widely as possible.

While we support the above proposal in most circumstances, we are of the view that at the same time, such a proposal may have other complications for conglomerates when a subsidiary is eligible for applying the temporary exemption whereas its group is required to adopt IFRS 9 (i.e., some insurers that are part of bigger banking groups). The subsidiary may need to maintain a set of books based on IFRS 9 for group reporting and another set based on IAS 39 for the purpose of its own financial statements. We believe that the subsidiary should not be disadvantaged just because it is part of such a group which undertakes significant other activities.

In view of the above, we wish to recommend that the IASB consider making an exception in such circumstances to provide the option of applying the deferral approach (subject to meeting the predominance condition) at the individual subsidiary level, and then permitting this deferral approach to roll-up into group reporting during consolidation.

**Question 5- Should the overlay approach and the temporary exemption from applying IFRS 9 be optional?**

As explained in paragraphs BC78–BC81, the Exposure Draft proposes that both the overlay approach and the temporary exemption from applying IFRS 9 would be optional for entities that qualify. Consistently with this approach, paragraphs BC45 and BC76 explain that an entity would be permitted to stop applying those approaches before the new insurance contracts Standard is applied.

(a) Do you agree with the proposal that the overlay approach and the temporary exemption from applying IFRS 9 should be optional? Why or why not?

(b) Do you agree with the proposal to allow entities to stop applying the overlay approach or the temporary exemption from applying IFRS 9 from the beginning of any annual reporting period before the new insurance contracts Standards is applied? Why or why not?

(a) Yes, we agree that the overlay approach and the temporary exemption from applying IFRS 9 should be optional because facts and circumstances differ for all entities.

(b) Yes, we agree with the proposal to allow insurance entities to stop applying the overlay approach or the temporary exemption from applying IFRS 9 from the beginning of any annual reporting period before the new insurance contracts Standard is applied.

Insurance entities which do so will issue financial statements which are more consistent with other industries (those that do not issue insurance contracts and are not given alternatives on when and how to adopt IFRS 9), thereby facilitating their use by financial analysts (who are one key group of financial statement users).

**Question 6 - Expiry date for the temporary exemption from applying IFRS 9**

Paragraphs 20A and BC77 propose that the temporary exemption from applying IFRS 9 should expire at the start of annual reporting periods beginning on or after 1 January 2021.

Do you agree that the temporary exemption should have an expiry date? Why or why not?

Do you agree with the proposed expiry date of annual reporting periods beginning on or after 1 January 2021? If not, what expiry date would you propose and why?

We are of the view that the expiry date should mirror the implementation date of IFRS 4.

Should you require any further clarification, please feel free to contact Mr Ang Soon Lii, Manager, Technical Advisory and Professional Standards, from ISCA via email at [soonlii.ang@isca.org.sg](mailto:soonlii.ang@isca.org.sg).

Yours faithfully



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