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Must know

Transition Resource Group debates IFRS 17 implementation issues

Insurance TRG addresses unit of account, contract boundary, and coverage unit issues

At a glance

At its second meeting held on 2 May 2018, the Transition Resource Group for IFRS 17 Insurance Contracts (TRG) continued the discussion on several implementation issues. The issues discussed related to combination of insurance contracts, cash flows within the contract boundary, contract boundary of reinsurance contracts held with repricing mechanisms, quantity of benefits for identifying coverage units, and the results of the outreach performed by the IASB staff regarding three follow-up matters from the February 2018 TRG meeting. The views in this publication are based on our observations from the meeting, and they might differ in some respects from the official summary of the meeting to be published by the IASB at a later date.

Background on TRG

1. In connection with the issuance of IFRS 17, 'Insurance Contracts', the IASB established a working group, the TRG, to provide a public forum for stakeholders to follow the discussion of questions raised on implementation of the new standard. The TRG comprises financial statement preparers and auditors, and an additional three members with observer status representing international security regulators, insurance supervisors and actuarial organisations.

2. Overall, the purpose of the TRG is to facilitate a public discussion to provide support for stakeholders and information to the Board on implementation questions arising from the application of IFRS 17. During the meetings, the TRG members share their views on the issues. The TRG will not issue guidance. The IASB will determine what action, if any, will be taken on each issue. Possible actions include providing supporting implementation guidance, such as webinars and case studies, and/or referral to the Board for potential editorial corrections or referral to the Interpretations Committee.

3. Additional background on the issues discussed at the TRG meeting can be found on the IASB website.

Highlights of TRG discussions

Summary of issues discussed

4. There were seven agenda items discussed at the meeting. Some of these issues have resulted in clarification of the guidance, and some require further consideration. A summary of the issues discussed is provided in the table:

Date	TRG Agenda Ref #	Topic discussed	Anticipated next steps
2 May 2018	1	Combination of insurance contracts	No further action expected.
	2	Determining the risk adjustment for non-financial risk in a group of entities	Further discussion might take place.
	3	Cash flows within the contract boundary	No further action expected.
	4	Boundary of reinsurance contracts held with repricing mechanisms	No further action expected.
	5	Determining the quantity of benefits for identifying coverage units	IASB staff will inform the Board of the proposed narrow amendment and the discussion of amortisation of coverage units for contracts with investment components.
	6	Implementation challenges outreach report	IASB staff will present a paper to the Board, and issue educational materials on one item.
	7	Reporting on other questions submitted	No further action expected.

Issues discussed at the TRG meeting

Combination of insurance contracts

5. The TRG observed that the analysis for combination of contracts should be consistent with the analysis that was described for the separation of insurance contract components at the February TRG meeting. At the February meeting, it was noted that factors to consider include interdependency between the different risks covered, whether lapse of one component results in the lapse of the others, and whether components can be priced and sold separately. The staff referenced the Conceptual Framework as its source for guidance under paragraph 9 of IFRS 17 on combination, and the discussions imply that the Conceptual Framework should be a guiding principle for both combination and separation decisions.

6. The TRG agreed that the existence of a discount, or the fact that the contracts were entered into at the same time with the same counterparty, is not sufficient to conclude that contracts should be combined.

7. In the analysis of whether the contracts achieve, or are designed to achieve, an overall commercial effect, significant judgement and careful consideration of all relevant facts and circumstances are required. No single factor is determinative in applying the assessment. Several TRG members noted that they thought the staff analysis implied that the lapse criterion was more important than the other criteria, which they noted would not always be the case. The IASB staff clarified that, in the particular fact pattern provided in the submission, the lapse criterion was considered more determinative than the discount that existed in the contracts.

8. One TRG member asked if the staff could clarify whether the consideration of whether two or more contracts should be combined was only applicable for contracts entered into at or around the same time. A second TRG member expressed a view that the analysis should only relate to situations where the contracts are issued at the same time. However, another TRG member provided an example of a contract that adds a rider five years from contract inception with an 80% discount on the rider, with the purpose of achieving an overall commercial effect. The TRG members noted that there were different points of view when this issue was discussed as part of a technical group discussion in Hong Kong. The Chair noted that this question was outside the scope of the paper, and that the question could be submitted separately to the TRG.

PwC observation

The observation that the analysis should be consistent, whether it is addressing combination or separation issues, was noted as being very helpful, especially given that the guidance in paragraph 9 of IFRS 17 explicitly addresses only combination considerations. TRG members were also in strong agreement with the staff's observation that the existence of a discount alone is not determinative that contracts should be combined. Providing a discount where more than one coverage is purchased is a relatively common occurrence; in some fact patterns, this discount might be quite substantial and might have been designed to achieve an overall commercial effect, but in other cases it might not.

Determining the risk adjustment for non-financial risk in a group of entities

9. The question raised in the submission is the level within an insurance group at which the risk adjustment is required to be determined. The submission asks first if contracts issued by the subsidiary can reflect the degree of risk diversification available only to the consolidated group as a whole. The second question is whether the risk adjustment for the group as a whole can deviate from the sum of the underlying risk adjustments of the subsidiaries in the consolidated financial statements.

10. The IASB staff noted that the risk adjustment should be determined at the level that the issuing entity considered when it determined the compensation that it required for bearing the risk. The decision is a single decision made by the entity that is party to the contract. The issuing entity chooses what factors to consider when it determines the compensation that it requires for non-financial risks, including the degree of risk diversification that occurs at a level higher than the entity level.

11. Some TRG members noted that a group considers risk diversification benefits in its business and capital management procedures. The TRG agreed with the staff view that, to the extent that a subsidiary actually has considered the degree of group risk diversification benefits, it should be included in the determination of risk adjustment for that reporting entity. It was acknowledged that the risk adjustment is not an explicit charge to the customer, but it is the amount that the entity would require if it were to charge the policyholder an explicit separate amount for bearing non-financial risk.

12. In the discussion, IASB staff emphasised that, for accounting purposes, the risk adjustment amount is a single decision made by the entity that is party to the contract, and that applying a different risk adjustment at the group level would be inconsistent with that notion. Thus, if the entity issuing the contract does not apply group diversification considerations to its estimate of the risk adjustment, this accounting measurement perspective does not change from the subsidiary to the consolidated level even though, economically, the consolidated group might benefit from risk diversification from various products issued with offsetting risks.

13. While some TRG members confirmed that their interpretation of the requirements in the standard aligned with staff, other TRG members suggested alternative interpretations. They noted that compensation for risk could be different, depending on how one interprets 'the entity' in this context. They noted that IFRS standards usually reference the reporting entity, which would be the consolidated group when preparing the group financials, and the subsidiary when preparing subsidiary financial statements. In addition, some view the risk adjustment not as a component of the price charged to the customer but as a cost borne by the reporting entity. Further, although capital is allocated based on the risk diversifications at a group level, some entities within the group might make their decisions ignoring the allocated capital in their determination of the risk adjustment. Different calculation techniques or local requirements could thereby cause the sum of the risk adjustments of the entities within the group to deviate from a risk adjustment that depicts the diversification benefits available in the group as a whole.

14. Some TRG members noted that, in the required confidence level disclosures, the disclosures in the consolidated accounts would be different from those in the subsidiary accounts, thereby highlighting to users the economic level of diversification in the consolidated group.

PwC observation

Many TRG members noted that, in practice, they could accept the IASB staff views. However, TRG members had different views on whether the risk adjustment could or should be different at the group consolidated level. It appeared that TRG members agreed that this should not be a choice, so it is unclear whether the Board will discuss further which of the two views is appropriate.

Cash flows within the contract boundary

15. The two main issues discussed at the May 2018 TRG meeting relating to the application of paragraph 34 of IFRS 17 were: (a) interpretation of the 'practical ability to set a price at a future date that fully reflects the risks of a contract or portfolio' requirement; and (b) determination of the contract boundary for contracts that include an option to add insurance coverage at a future date.

16. With regard to the interpretation of the 'practical ability to set a price', the staff paper noted that this includes consideration of contractual, legal and regulatory restrictions, as well as market competitiveness and commercial considerations. The TRG noted that, for contracts with pricing restrictions, if an entity can set the same price for an existing contract as it would for a new contract with the same characteristics issued on that date, or can reprice the existing contract to reflect overall changes in the risks in a portfolio, the entity's practical ability to reprice would not be considered to be constrained. This would apply to pricing restrictions imposed by regulators as well as by competitive pressures. It was noted that a constraint that limits an entity's practical ability to reprice differs from pricing decisions that an entity makes voluntarily, which might not limit the entity's practical ability to reprice.

17. On the issue of accounting for a contract that includes an option to add insurance coverage at a future date, the staff proposed several key principles. First, they noted that the option is a feature of the existing insurance contract, whether that option price is fixed at inception or set at the date when the option is exercised. This is true, unless the entity considers that such an option is a separate contract when applying the decisions reached at the February 2018 TRG meeting with regard to separation.

The assessment of whether the cash flows arising from the option are within the boundary of the insurance contract is thus performed together with the assessment of all other cash flows arising from other features of the insurance contract.

18. The TRG observed that, where the option price is fixed at inception, it is clear that the cash flows arising from the option are within the contract boundary, because the entity cannot reprice the contract in its entirety to reflect the risk of that component.

19. However, where the option price is not fixed at inception, and it is part of a contract that has repricing constraints (such as the original contract not being repriced), the staff proposed that the cash flows arising from the premiums after the option exercise date would be within the contract boundary and included in measurement of the contract on initial recognition. On election of the option, any changes in cash flows would be treated as changes in the estimate of fulfilment cash flows.

20. Several TRG members challenged the staff view, noting that they would consider potential future option cash flows in the current measure of fulfilment cash flows only if the option reflected a current substantive right to the policyholder and substantive obligation of the insurer. They proposed that an option that is exercisable at terms to be determined at a future date might or might not create such a right and obligation, depending on the particular facts and circumstances. It was noted that inclusion of options that do not represent a current right and obligation could result in overstatement of the contractual service margin (CSM), and it could present operational challenges in terms of how to estimate what price future management might assign to the option.

21. The staff responded that they viewed the option as providing guaranteed insurability, and they presumed that, if it was included in the contract, it would typically have commercial substance. They therefore believe that the fact that an insurer can price an option at the exercise date is not determinative that it is not a substantive right and obligation. For purposes of the discussion, the Chair asked that the group assume that the contract in question provided a substantive right and obligation, and that analysis of when an option does or does not do so was outside the scope of the current discussion. If necessary, the TRG could address this issue separately at a future meeting.

PwC observation

Entities need to consider carefully whether the economic substance of a contract that includes an option is best reflected as a single contract or as two separate insurance contracts, using the guidance on separation provided at the February 2018 TRG meeting. In addition, as noted at this meeting, determination of whether an option to provide coverage results in a substantive right to the policyholder and a substantive obligation of the issuer is an important consideration in the analysis of whether option cash flows fall within the contract boundary.

Boundary of reinsurance contracts held with repricing mechanisms

22. The TRG discussed how the boundary of a reinsurance contract held should be determined where the reinsurer has the right to adjust premium rates that it will charge prospectively for the remaining coverage, subject to a minimum notice period of 90 days. The cedant is committed for the entire term of the underlying contracts, unless there is a repricing by the reinsurer.

23. The fact pattern differs from the one discussed at the February 2018 TRG meeting, where the TRG decided that the contract had a 90-day contract boundary. In the February 2018 discussion, the cedant had the right to cancel, whether or not the reinsurer exercised its repricing right. In this contract, however, if the reinsurer does not exercise its right to reprice, the cedant is committed to pay premiums for the full contract term.

24. At the February 2018 meeting, the TRG observed that, in the context of paragraph 34 of IFRS 17 for reinsurance contracts held, cash flows within the boundary of a reinsurance contract held arise from the substantive right of the cedant to receive services from the reinsurer, and from the substantive obligation to pay premiums to the issuer (reinsurer) of the contract. The substantive right to receive services from the reinsurer ends when the reinsurer has the practical ability to reassess the risks transferred and can reprice to fully reflect the reassessed risk, or when the reinsurer has a substantive right to terminate the coverage.

25. The TRG concluded that, in the fact pattern in the paper for this meeting, because the cedant cannot cancel unless there is a repricing, and because the reinsurer's ability to reprice is outside the cedant's control, the cedant has a substantive obligation to pay premiums for the full reinsurance contract term– that is, as noted under paragraph 34 of IFRS 17, 'Cash flows are within the boundary of an insurance contract if (...) the entity [reinsurer] can compel the policyholder [cedant] to pay the premiums'. While the contract boundary will reflect the full duration of the underlying contracts, fulfilment cash flows for the reinsurance contract held would nevertheless be required to reflect the likelihood of future premium adjustments and cedant recapture decisions.

PwC observation

TRG members quickly agreed with the views expressed in the staff paper for this particular fact pattern, although it was noted by a few that the fact pattern, in which the reinsurer has the right to reprice or cancel but the cedant does not have a cancellation right unless there is a repricing, was a rather narrow fact pattern not often observed in practice.

Determining quantity of benefits for identifying coverage units

26. The agenda paper addresses the definition of 'quantity of benefits' in paragraph B119(a) of IFRS 17, which serves as the basis for recognising the CSM, and continues the discussion from the February 2018 TRG meeting. IASB staff have since performed an outreach to TRG members requesting feedback and examples, from which the staff developed the analysis and 16 examples in the paper for this meeting.

27. A few TRG members noted that they disagreed with the quoted observation from the February 2018 TRG meeting, where the minutes indicate that the TRG agreed that coverage units should reflect the likelihood of insured events occurring only to the extent that they affect the expected duration of contracts in the group, and that coverage units do not reflect the likelihood of insurance events occurring to the extent that they affect the amount expected to be claimed by the policyholder in the period.

Insurance contracts without investment components

28. The TRG members mainly agreed with the principle that coverage units should reflect different levels of cover provided in different periods. However, TRG members expressed concerns with a suggestion that the benefit provided under the contract is the entity standing ready to meet the contractual maximum cover, because they did not think that this approach was appropriate in some situations. This could, for example, be the case where there is a mixture of contracts with a high coverage limit and contracts with low limits within the same group, or where there is a maximum cover without commercial substance.

29. TRG members agreed that, due to the wide variety of insurance products, a principles-based approach for determination of quantity of benefits is more appropriate than one approach and strict rules and guidelines. Several TRG members noted that examples should be used with caution to illustrate the principles, because they would depend on specific facts and circumstances. Members agreed that the objective is to provide an estimate of the services provided by the insurer. Further, this estimate is not an accounting policy choice, but it is instead a judgement requiring estimates to best reflect the provision of service, and the approach should be applied systematically and rationally.

30. Some TRG members suggested that the approaches and examples were too detailed, and that they deviated from the original principle that the CSM should be recognised straight line based on the passage of time. However, others pointed out that further guidance interpreting 'quantity of benefits' was necessary in view of the requirement to reflect the differing quantity and term of benefits inherent in a group, or even in a single contract.

31. The TRG members were generally in agreement with the principles set out by the staff for determining the quantity of benefits in the period, including that:

- the entity needs to consider expected benefits to be received by the policyholder, and not the expected cost of providing those benefits; hence, expected claims payments cannot be applied in the principle for determination of the coverage units; and

- since the policyholder benefits from the entity's act of standing ready to meet valid claims, and not just from making that claim if an insured event occurs, the quantity of benefits depends on the amount that can be claimed in each period.

While the staff suggested that the probability of making a claim does not affect the benefit of it being able to make a claim, some TRG members thought that there could be instances where this would not be the case.

32. TRG members agreed that judgement is required to determine the quantity of benefits that meets the objective in the standard. Possible ways of determining this could be, but are not limited to:

(i) the maximum contractual cover in each period; and

(ii) the amount that the entity expects the policyholder to be able to validly claim in each period if an insured event occurs. TRG members emphasised that how the quantity of benefit is determined would depend on actual facts and circumstances in the particular contract, and should reflect the principle. The possible ways summarised in the previous paragraph should not be read as being a choice. TRG members noted that methods of determining quantity of benefits based on premiums or based on expected cash flows could be appropriate if it could be demonstrated that they were reasonable proxies for services provided in each period.

PwC observation

Determination of coverage units and quantity of benefits is not an accounting policy choice; entities are required to apply judgement to depict the expected services to be provided by the insurer to the policyholder. For contracts without investment components, a possible method could be, depending on the characteristics in the insurance contract, to use the amount that the entity expects the policyholder to be able to validly claim in each period if an insured event occurs as the basis for the quantity of benefits.

Insurance contracts with investment components

33. The staff paper proposed that, for contracts applying the variable fee approach (VFA), determination of quantity of benefits should include consideration of the pattern of services for both insurance and investment-related services. The staff point out that the standard acknowledges that VFA contracts provide investment services, and that changes in the entity's share of returns from underlying investment items are regarded as changes in the entity's compensation for the contract that impact the CSM. Therefore they believe that the allocation of the CSM should be based on the pattern of both insurance and investment services.

34. The staff paper noted that other contracts with investment components that do not qualify for the VFA do not provide 'investment-related services', as defined in IFRS 17. For these contracts, the staff noted that changes in the effects of the time value of money and financial risk do not affect the CSM. The paper therefore suggested that the determination of quantity of benefits for non-VFA contracts for CSM allocation should be based solely on the coverage period of insurance services, and it should exclude consideration of the benefits provided relating to the investment component. The staff believe the treatment of coverage units should be consistent with the unlocking of the CSM.

35. The staff acknowledged that the basis for conclusions is unclear regarding the CSM amortisation period for contracts under the VFA and, in the staff paper, they recommended a narrow amendment to the standard to modify the definition of 'coverage period' for VFA contracts to clarify that it includes the period in which investment related services are provided.

36. For insurance contracts that include an investment component that do not qualify for the VFA, many TRG members expressed significant concern with the proposed view that the CSM should only be amortised over the insurance service coverage period. They pointed out that there are many contracts in various territories, including the US and Asia, that have characteristics similar to VFA contracts with asset-dependent cash flows. The amounts credited to these contracts are based on an asset return less a spread, and the related cash flows are then discounted using the asset-based rate (as illustrated in Example 6 of the standard). Because the insurance component is often less significant, this spread is frequently a major component of the CSM. In the view of TRG members, it seems inappropriate to recognise this spread over only the insurance coverage period of these contracts rather than the coverage and investment periods. They also believe that guidance in paragraph B98 of IFRS 17, which provides for certain changes in the discretionary cash flows to be applied against the CSM for 'indirect participating contracts', is evidence that IFRS 17 treats some components of these contracts as investment services, similar to the VFA model.

37. One member expressed a view that the wording in IFRS 17 is unclear because the description of coverage period refers to all premiums within the boundary of the contract, which could include those after the insurance service has ceased.

38. Another member noted that, whilst IFRS 17 cannot be read as staff intended for VFA contracts, without the proposed amendment, she is concerned with the consequences of making a change to the standard, which did not seem to be a narrow amendment, given the difference of views expressed by TRG members.

PwC observation

The Chair of the TRG informed that the staff would give an update to the Board of both the proposed narrow amendment and the outcome of the discussion of contracts with investment components that fail VFA. Whether these matters will be subject to further discussion by the TRG will depend on the Board's view.

Implementation challenges outreach report

39. At the February 2018 TRG meeting, some members expressed concern that there were submissions that were identified by the staff as not warranting further TRG discussions, but that had significant operational challenges. For three of those submissions, the Chair suggested that outreach be performed by the IASB staff to gain a deeper understanding of the implementation challenges relating to:

(a) presentation of groups of insurance contracts in the statement of financial position;

(b) premiums received applying the premium allocation approach (PAA); and

(c) subsequent treatment of insurance contracts acquired in their settlement period.

40. The feedback received regarding level of aggregation (which impacts items (a) and (b) above) included in the staff paper describes both the technical challenges and the expected cost of developing systems to comply with the requirements in IFRS 17. Some TRG members also commented in the outreach that, in their view, while the current accounting model provides useful and relevant information, the new presentation requirements will not.

41. In response to a question submitted in February 2018 and responses received from TRG outreach relating to premiums received, the staff have included a few examples of how to mechanically apply the PAA approach. The examples include situations where a premium is paid upfront, at the end of the coverage period, and in monthly instalments. The examples illustrate that, under the PAA, an insurance contract asset might result in situations where insurance revenue is earned in advance of the receipt of a premium.

42. Some TRG members noted that the information included in the staff paper relating to level of aggregation does not sufficiently convey the significance of issues that they are facing. The TRG members noted that they acknowledge the requirements, but they are concerned with the required cost, and some also expressed concern over the time to implementation. The TRG members therefore requested the staff to add further clarity of their implementation challenges in the report to the Board.

43. Regarding the subsequent treatment of insurance contracts acquired in their settlement period (for example, subsequent accounting for insurance contracts acquired in a business combination), both IASB staff and TRG members observed that the new accounting requirement for such transactions represents a significant change from existing practice. Some TRG members expressed their concern that this new accounting provision would require entities that have acquired contracts (that would otherwise be eligible for the PAA) to develop systems to comply with both accounting models.

PwC observation

The purpose of the TRG is not to discuss implementation challenges, although these three matters subject to discussions developed out of TRG submissions. Further, quite a few TRG members noted that these implementation challenges were in the top three challenges that they were facing in their implementation projects.

Reporting on other questions submitted

44. In total, 49 items have been submitted to the TRG, 22 of which were submitted for the May 2018 meeting. The agenda paper summarises the status of other submissions received that, in the staff's view: (a) can be answered applying only the words in IFRS 17 (10 items); (b) do not meet the submission criteria (nil); or (c) are being considered through a process other than a TRG discussion (1 item). There is one submission where the IASB staff have requested further information and, for two submissions related to mutual entities, the submitter has requested to keep this on hold due to further analysis performed by the submission.

45. The IASB staff provided some further explanation on submission 13, since the TRG did not think that the question and the provided answer were clear. The question raised in submission was, since there is a method for modified retrospective approach on transition, whether it is possible to also apply some estimations in the full retrospective approach. The IASB staff confirmed that a full retrospective approach is not a requirement introduced by IFRS 17, and that entities needs to apply IAS 8 in this context. Further, an IASB Board member encouraged TRG members to submit issues related to how to apply the modified retrospective approach in practice.

46. A TRG member observed that the response on submission 29 could make a difference. The member would provide an example to the IASB that would illustrate the difference that use of an effective yield rate versus a yield curve would make.

47. One member noted concern with some of the staff responses that suggested that some of the considerations were 'actuarial in nature and therefore do not fall within the remit of the TRG'. Another member noted that submission 33 relating to products that might be within the scope of IFRS 17 is a real concern for non-insurers, because they might not realise that IFRS 17 is applicable.

PwC observation

It was noted that the submission relating to scope, which is being considered through a separate process within the IASB, should be prioritised, given the potential impact on non-insurers that have not yet started implementation projects.

Topics to be discussed at future TRG meetings

48. The next TRG meeting is scheduled for September 2018 and is likely to be a two-day meeting. As noted above, there are some submissions that might require further consideration by the TRG. It is expected that these, along with other issues received by 20 July 2018, will be considered at the meeting in September.

What's next

49. The IASB will prepare a report of the meeting, expected to be made publicly available within two working weeks from the meeting date.

Issues of the month

Disclosures required in interim financial statements - IFRS 9

At a glance

IFRS 9, the new standard on financial instruments, is required to be applied for annual reporting periods beginning on or after 1 January 2018. Many entities will be required to issue interim financial statements under IAS 34, 'Interim Financial Reporting', before they issue their first annual financial statements applying IFRS 9.

Regulators, investors and other stakeholders might focus on disclosures related to the adoption of IFRS 9.

What is the issue?

What disclosures are required in interim financial statements in the year in which IFRS 9 is adopted?

Unlike IFRS 15 (the new revenue standard), IFRS 9 made no consequential amendments to IAS 34 to bring in specific new interim disclosure requirements. So the key requirement for interim reports is found in paragraph 16(a) of IAS 34, which states that an entity should provide *"a statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change"* (emphasis added). Paragraph 6 of IAS 34 also states that the interim financial report is intended to provide an update on the latest complete set of annual financial statements and, accordingly, it focuses on new activities, events and circumstances.

What is the impact and for whom?

The extent of the disclosures will depend on an entity's circumstances. Entities apply judgement to determine the extent of the disclosure, taking into consideration, for example:

- the requirements or expectations of local regulators: entities should consider any guidance issued by regulators that might encourage or require specific disclosures or information to be included in interim reports; some regulators might require a subset of the disclosures required in annual financial statements to be included in the interim report; and
- the significance of the changes: the extent of disclosures might vary depending on the effect on the financial statements of the initial adoption of IFRS 9; for instance, in the banking sector, some entities might choose to include more information on expected credit losses, due to the significance of the impact on their financial statements; disclosures might be less extensive where the impact is qualitatively or quantitatively lower.

The disclosures might include:

- a description of the nature and effect of the change resulting from the new accounting policies (this disclosure is required by paragraph 16A(a) of IAS 34), including the new accounting policies themselves;
- the key judgements made by management in applying IFRS 9 (such as those when applying the business model test for classification and measurement or assumptions made in incorporating forward-looking information into expected credit loss calculations);
- details of the impact on the amounts presented in the interim financial statements, including earnings per share and the opening balance of retained earnings;
- the disclosures in paragraphs 42L and 42P of IFRS 7 which set out some of the quantitative and qualitative disclosures which are required in the annual financial statements where IFRS 9 is applied for the first time; and
- disclosures specific to the entity – entities should consider whether the requirements in paragraph 28 of IAS 8, which will be applicable for the annual financial statements, could be used to explain the nature and effect of the change in accounting policy when IFRS 9 is first applied.

Entities should also consider whether any of the other detailed disclosures required by IFRS 7 in annual financial statements are useful to comply with the requirements of IAS 34, although such disclosures are not mandatory in interim reports.

In addition, appropriate disclosures should be given about other aspects not discussed above that are necessary for a user to understand the impacts at transition, the reasons for those impacts and the key judgements that will impact the financial statements going forward.

When does it apply?

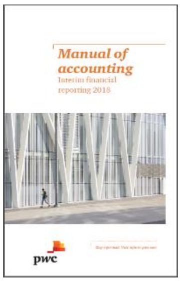
IFRS 9 is applicable for annual reporting periods beginning on or after 1 January 2018. Any interim financial statements issued before the first annual financial statements applying IFRS 9 will need to consider the above guidance.

Cannon Street press

The May 2018 IASB update has been published and the work plan updated.

The topics, in order of discussion, were:

- Primary Financial Statements
- Disclosure Initiative—Targeted Standards-level Review of Disclosures
- Business Combinations under Common Control
- Rate-regulated Activities
- Goodwill and Impairment
- Implementation
- Insurance Contracts



Download for free: Manual of accounting - Interim financial reporting 2018 ebook

This ebook is a combined document including chapter 35 of the IFRS Manual of accounting on interim financial reporting (IAS 34), and illustrative condensed interim financial statements 2018.

Contacts

For further help on IFRS technical issues, contact:
Andri Stavrou: Tel: +30 210 687 4703
andri.stavrou@gr.pwc.com

Financial instruments
Kyriaki Plastira: Tel: +30 210 687 4425
kyriaki.plastira@gr.pwc.com

Business combinations
Iliana Kostoula: Tel: +30 210 687 4044
iliana.kostoula@gr.pwc.com

Liabilities, revenue recognition and other areas
Vart Kassapis: Tel: +30 210 687 4757
vart.kassapis@gr.pwc.com

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