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SLFRS 4 Insurance Contracts.

Accounting Standards Seminar Series 2016

29th November 2016

Agenda

- Introduction
- Understanding Insurance Contracts
- Classification of Insurance Contracts
- Technical Reserves under SLFRS 4
- Liability Adequacy Test (LAT)
- Expense Classification under SLFRS 4
- Impairment of Reinsurance Assets
- Temporary Exemption in LKAS 8
- Changes in Accounting Policies
- Continuing Existing Requirements
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Introduction

The implementation of the IFRS (SLFRS) for insurers designed in 2 phases

- Phase I, in force since 2004 (2012 in SL), is documented in IFRS 4/SLFRS 4, it is only an interim solution with focus on disclosures
- In phase II, the planned final version of IFRS for insurers with focus on valuation, the "Fair Value Concept" will be introduced for all relevant Balance Sheet items
- The Fair Value Concept implies the valuation of all assets and liabilities of the Balance Sheet with market values, if existing, or with "market-near" values (market consistent valuation)

Introduction

Objective of SLFRS 4

- SLFRS 4 (IFRS 4) applies to Insurance Contracts issued by any entity, including entities that are not regulated as insurers until the 2nd Phase of the "Insurance Contracts" is completed
- Under SLFRS 4, any entity who has issued Insurance Contracts are considered as Insurers, irrespective of their legal identity

Introduction

SLFRS 4 is applicable to;

- ***Insurance*** Contracts including ***reinsurance*** contracts issued
- Also includes reinsurance contracts ***held***
- Financial Instruments with ***Discretionary Participation Features (DPF)***

*It **does not** address other aspects of accounting by insurers, such as*

accounting for financial assets

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Introduction

SLFRS 4 is NOT Applicable to (eg);

Shall not apply to	Applicable Standard
Product Warranties by the Manufacturer, Dealer or the retailer	LKAS 37 – Provisions, Contingent Liabilities and Contingent Assets
Employers Assets and Liabilities under Employee Benefit Plans	LKAS 19 – Employee Benefits and SLFRS 2 – Share Based Payments
Retirement Benefit Obligations reported by Defined Benefit Retirement Plans	LKAs 26 – Accounting and Reporting by Retirement Benefit Plans
Financial Guarantee Contracts	LKAS 39, LKAS 32, SLFRS 7 (Financial Instruments)
Contingent consideration receivable or payable in a Business Combinations	SLFRS 3 – Business Combinations

Understanding Insurance Contracts

Definition

- Under an insurance contract, one party (the insurer) accepts **significant insurance risk** from another party (the policyholder) by agreeing to compensate the policyholder if a specified **uncertain future event (the insured event) adversely affects** the policyholder
- Some contracts having the **legal form of insurance may not** meet that definition
- Insurance contracts transfer **insurance risks** (rather than only financial risks)

Understanding Insurance Contracts

Insurance Risk

- **Insurance risk** is defined as a **"risk, other than financial risk, transferred from the holder of a contract to the issuer**"

Understanding Insurance Contracts
Financial Risk

Financial Risk is the risk of a possible

- **future change** in one or more of a specified **interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable**,
- provided in the case of a non-financial variable that the variable is not **specific to a party to the contract**."

Classification of Insurance Contracts

Main types of contracts under SLFRS 4 are;

- Insurance contracts **SLFRS 4**
- Reinsurance Contracts **SLFRS 4**
- Investment contracts **with** DPF **SLFRS 4**
- Investment contracts **without** DPF **LKAS 39**

Classification of Insurance Contracts

Examples

- Traditional endowments financed with single or regular premiums
- Unit-linked endowments financed with single or regular premiums
- Term insurance contracts
- Annuities, immediate or deferred
- Riders and supplementary contracts are assessed together with the base contracts
- All Non-Life Insurance Contracts

Classification of Insurance Contracts

Investment Contracts

- Investment Contracts are contracts which bear **significant financial risk**, but have **no significant insurance risk**. Those contracts can be either

investment contracts **with** DPF (under SLFRS 4)
or
investment contracts **without** DPF; (under LKAS 39)

Classification of Insurance Contracts

Discretionary Participation Features (DPF)

- A DPF is a contractual right to receive, as a **supplement** to guaranteed benefits, additional benefits
- that are likely to be a **significant** portion of the total contractual benefits and,
- whose amount or timing is contractually at the **discretion of the issuer**
- And that are contractually based on:
    - the **performance** of a specified pool of contracts or a specified type of contract or
    - realised or/and unrealised **investment returns** on a specified pool of assets held by the issuer or
    - the **profit or loss of the company**, fund or other entity that issues the contract.

Classification of Insurance Contracts

Discretionary Participation Features (DPF)

- The **decision** of whether a contract contains a DPF or not is made **at the inception of the contract**;
- a **reassessment is possible** at each valuation date, but better know the consequences; so there is a tendency not to change the classification
- The **result of the decision** depends on
  - the **likelihood** that an additional benefit is paid
  - the **amount** of the additional benefit
  - the fact that the **insurer is free** to decide
    - which **amount** will be paid as an additional benefit **and**
    - at **what point** in time the additional benefit will be paid **and**

Classification of Insurance Contracts
Discretionary Participation Features (DPF)

- The **DPF** may become **negative**, if for example policyholders participate in investment gains and losses both and if there are enough **unrealized losses.**
- A **negative DPF** may be treated in the same way as a positive DPF, as far as the **guaranteed benefits are not reduced**
- In addition, it must be considered that a **negative DPF is an asset**

Classification of Insurance Contracts

Investment Contracts without DPF

- Contracts are classified as investment contracts without DPF, ***if they do not have***
  - ***sufficient insurance risk*** to classify them as an insurance contract
  - ***nor a Discretionary Participating Feature (DPF)*** to classify them as an investment contract with DPF
- They must be accounted for ***as financial instruments*** according to ***LKAS 39***

Classification of Insurance Contracts
Embedded Derivatives

- As per SLFRS 4, an insurer ***need not*** account for an embedded derivative ***separately*** at fair value if the embedded derivative meets the definition of an ***insurance contract***

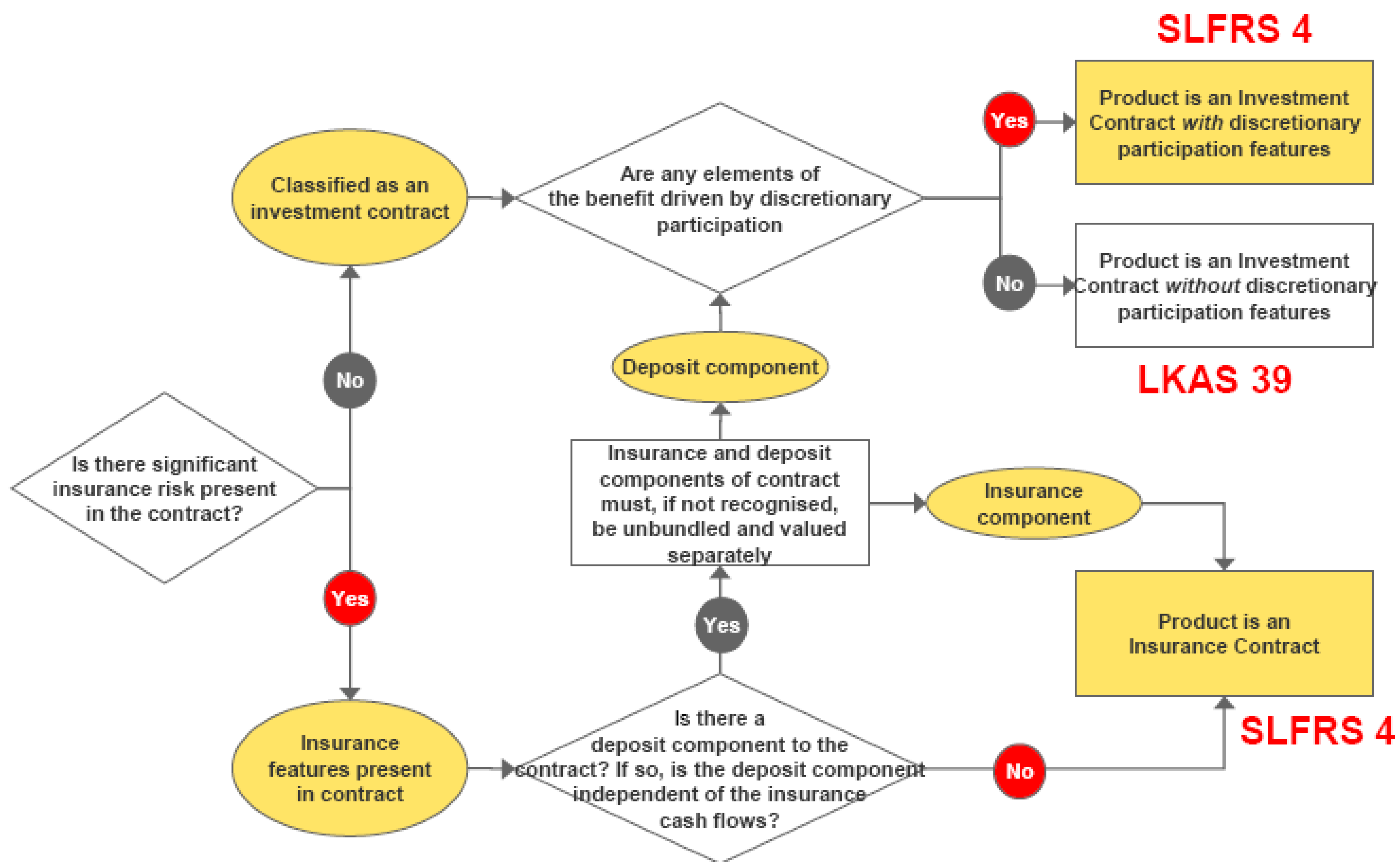
Classification of Insurance Contracts

Unbundling

- Unbundling of a deposit component is required **if, and only if,**
  - the **deposit component can be measured separately**; i.e. without considering the insurance components

  and
  - the **existing** insurer's accounting policy **fails to recognize all the obligations and rights** arising from the deposit component
- Unbundling is **prohibited** if an insurer cannot measure the **deposit component separately** as mentioned above

Classification of Insurance Contracts



Technical Reserves under SLFRS 4

- In SLFRS 4, **there are no explicit** rules for reserving
- There is only one principle that the reserves **must be adequate**
- To test this, it is mandatory to make a **Liability Adequacy Test (LAT)** at each valuation date (at least once a year)

Technical Reserves under SLFRS 4

According to SLFRS 4, it is possible

- to **carry on the reserving method** which was used up to the introduction of SLFRS 4

or

- to change the reserving method, if the new method is **closer to fair value than the old one**

Technical Reserves under SLFRS 4

Under SLFRS 4 (Sec 26)

- An insurer **need not** change its accounting policies for insurance contracts to **eliminate excessive prudence**.
- However, if an insurer already measures its insurance contracts with sufficient prudence, **it shall not introduce additional prudence**.

Liability Adequacy Test (LAT) – Sec 15

The Liability Adequacy Test (LAT) applies to

- **insurance contracts** according to Sec 15 of the SLFRS 4

and

- to **investment contracts with DPF** according to Sec 35 of the SLFRS 4

However

- Investment contracts **without DPF are not subject** to the LAT according to SLFRS 4; the provisions are determined according to LKAS 39

Liability Adequacy Test (LAT) – Sec 15

The concept of the LAT is given in Sec 15 SLFRS 4:

- An insurer shall assess at each reporting date whether its **recognized insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts.**

- If that assessment shows that the carrying amount of its insurance liabilities (less related intangibles as DAC) is **inadequate** in the light of the estimated future cash flows, the **entire deficiency shall be recognized in profit and loss**

Liability Adequacy Test (LAT) – Sec 15

Under SLFRS 4

- there **is no concrete definition** how to produce a LAT
- and **there are minimum requirements** in respect of a liability adequacy test used by an insurer, so that this test can be accepted as a LAT in the sense of IFRS 4
- If an insurer **meets the minimum requirements** as specified by this standard, this **standard does not impose any additional requirements**

Liability Adequacy Test (LAT) – Sec 15

The **minimum requirements** are the following:

- The test considers **current estimates of all contractual cash flows, and of related cash flows** (during the life time of the contract) such as claims handling costs, as well as cash flows resulting from embedded options and guarantees.
- **If the test shows that the liability is inadequate, the entire deficiency shall be recognized in profit or loss.**

Liability Adequacy Test (LAT) – Sec 15

If the LAT shows that the existing liability (Net GAAP Liability) is not sufficient

- the intangible assets as (DAC) is written down

or

- the existing reserves are increased

Usually, first the intangibles are written down and then reserves are increased. The entire deficiency shall be recognized in profit or loss

Liability Adequacy Test (LAT) – Sec 18

- If an **insurer's liability adequacy test meets the minimum requirements**, the test is applied at the level of **aggregation** specified in that test.
- If its **liability adequacy test does not meet those minimum requirements**, the comparison described in paragraph 17 shall be made at the level of a portfolio of contracts that are subject to broadly similar risks and managed together as a single portfolio.

Expense Classification under SLFRS 4

- In SLFRS 4, **there are no** detailed rules for classifying expenses, (But existing US GAAP has it)

Deferred Acquisition Costs (DAC) under SLFRS 4

- According to SLFRS 4 it is allowed
  - to capitalize acquisition expenses

  and
  - to amortize them over the life time of the contract

- But, in SLFRS 4 there are no explicit rules
  - how to capitalize the acquisition expenses

  and
  - how to amortize them

Impairment of Reinsurance Assets – Sec 20

- In SLFRS 4 it is explicitly prescribed to perform **impairment tests for the reinsurance assets**
- Reinsurance assets are impaired **if, and only if, there is objective evidence**
  - that not **all payments** will be recoverable from the re-insurer

  and
  - the event has a **reliably measurable impact** on the dues from the reinsurer

*Impairment losses have to be recognized immediately through **P&L***

Cangas in Accounting Policies (Sec 22)

- **An insurer may change its accounting policies for insurance contracts if, and only if,**
  - **the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable,**
  - **or more reliable and no less relevant to those needs.**

An insurer shall judge relevance and reliability by the criteria in LKAS 8.

Temporary Exemption in LKAS 8

- LKAS 8 Sec 10 discusses about the actions the Management should take in the absence of a SLFRS that specifically applies to a transaction when designing accounting policies.
- It gives various guidelines as to how the management should select and apply accounting policies in such an incident
- However, **SLFRS 4 exempts** an insurer from applying those criteria when developing its accounting policies;
  - For insurance contracts that it issues
  - Reinsurance contracts that it holds

Cangas in Accounting Policies– Specific Areas

- Current Interest Rates (Sec 24);
- Continuation of Existing Practices (Sec 25);
- Prudence (Sec 26);
- Future Investment Margins (Sec 27–29); and
- Shadow Accounting (Sec 30).

Current Interest Rates – Sec 24

An insurer **is permitted, but not required**,

- to **change its accounting policies** so that it **remeasures designated insurance liabilities** to reflect **current market interest rates** and recognises changes in those **liabilities in profit or loss**.
- The election in this paragraph permits an insurer to change its accounting policies for designated liabilities, **without applying those policies consistently to all similar liabilities** as IAS 8 would otherwise require.
- If an insurer designates liabilities for this election, **it shall continue to apply current market interest rates consistently in all periods** to all these liabilities until they are extinguished.

Continuation of Existing Practices – Sec 25

An **insurer may continue** the following practices, **but the introduction of any of them does not satisfy paragraph 22:**

(a) measuring **insurance liabilities on an undiscounted basis**.

(b) measuring **contractual rights to future investment management fees** at an amount that exceeds their fair value as implied by a comparison with current fees charged by other market participants for similar services.

(c) **using non-uniform accounting policies for the insurance contracts** of **subsidiaries**, except as permitted by paragraph 24

Prudence - Sec 26

- SLFRS 4 **does not** require insurers to change its accounting policies for insurance contracts to **eliminate excessive prudence**.
- However, if an insurer already measures its insurance contracts with **sufficient prudence, it shall not introduce additional prudence.**

Future Investment Margins - Sec 27/29

- An insurer **need not change its accounting policies for insurance contracts to eliminate future investment margins**.
- However, there is a **rebuttable presumption** that an insurer's financial statements will become **less relevant and reliable if it introduces** an accounting policy that reflects future investment margins in the measurement of insurance contracts, unless those margins affect the contractual payments.
- An insurer **may overcome the rebuttable presumption** if, and only if, the other components of a change in accounting policies increase the relevance and reliability of its financial statements sufficiently to outweigh the decrease in relevance and reliability caused by the inclusion of future investment margins.

Shadow Accounting – Sec 30

- Shadow accounting means that **unrealised gains or losses on the assets**, which are recognised in equity without affecting profit or loss, are **reflected in the measurement of the insurance liabilities** (or deferred acquisition costs or intangible assets) in the same way as realised gains or losses.

Shadow Accounting – Example

- Assume that a change in the fair value of assets classified as **'available for sale'** causes the recognition of in unrealised gains in equity amounting to Rs. 50 Million
- Then the liability for policyholders' rights under the participating contracts does not properly reflect the **ownership of that unrealised gain.** But, If the gain had been realised, the insurance liability would have been increased by that amount.
- If **shadow accounting is applied**, the insurance liability is increased by the unrealised gain of Rs. 50 Million as if the gains were realised.

Continuing Previous Accounting

- SLFRS 4 permits insurers to retain most aspects of their previous accounting for insurance contracts
- This avoids disruption while the IASB works on a comprehensive review of accounting for insurance contracts
- The nature and extent of judgements and estimates will, therefore, depend largely on that previous accounting

Continuing Previous Accounting

Accordingly, there are no prescribed SLFRS specific procedures for valuing

- provisions (technical reserves)
- insurance liabilities (Claims Reserves)
- insurance assets (e.g. DAC) and
- reinsurance contracts held

Continuing Previous Accounting

Under SLFRS 4 it is not allowed to provisions for future losses for contracts not in existence during the reporting period such as

- equalization provisions
- catastrophe provisions

Disclosures - Explanation of recognised amounts

An insurer **shall disclose information that identifies and explains the amounts in its financial statements** arising from insurance contracts.

a. its **accounting policies** for insurance contracts and related assets, liabilities, income and expense.
b. the **recognised assets, liabilities, income and expense** (and, if it presents its statement of cash flows using the direct method, **cash flows**) arising from insurance contracts.
c. the **process used to determine the assumptions** that have the greatest effect on the measurement of the recognised amounts described in (b).

Disclosures - Explanation of recognised amounts

d. the **effect of changes in assumptions** used to measure insurance assets and insurance liabilities, showing separately the effect of each change that has a material effect on the financial statements.

e. **reconciliations of changes** in insurance liabilities, reinsurance assets and, if any, related deferred acquisition costs.

Disclosures - Nature and extent of risks arising from insurance contracts

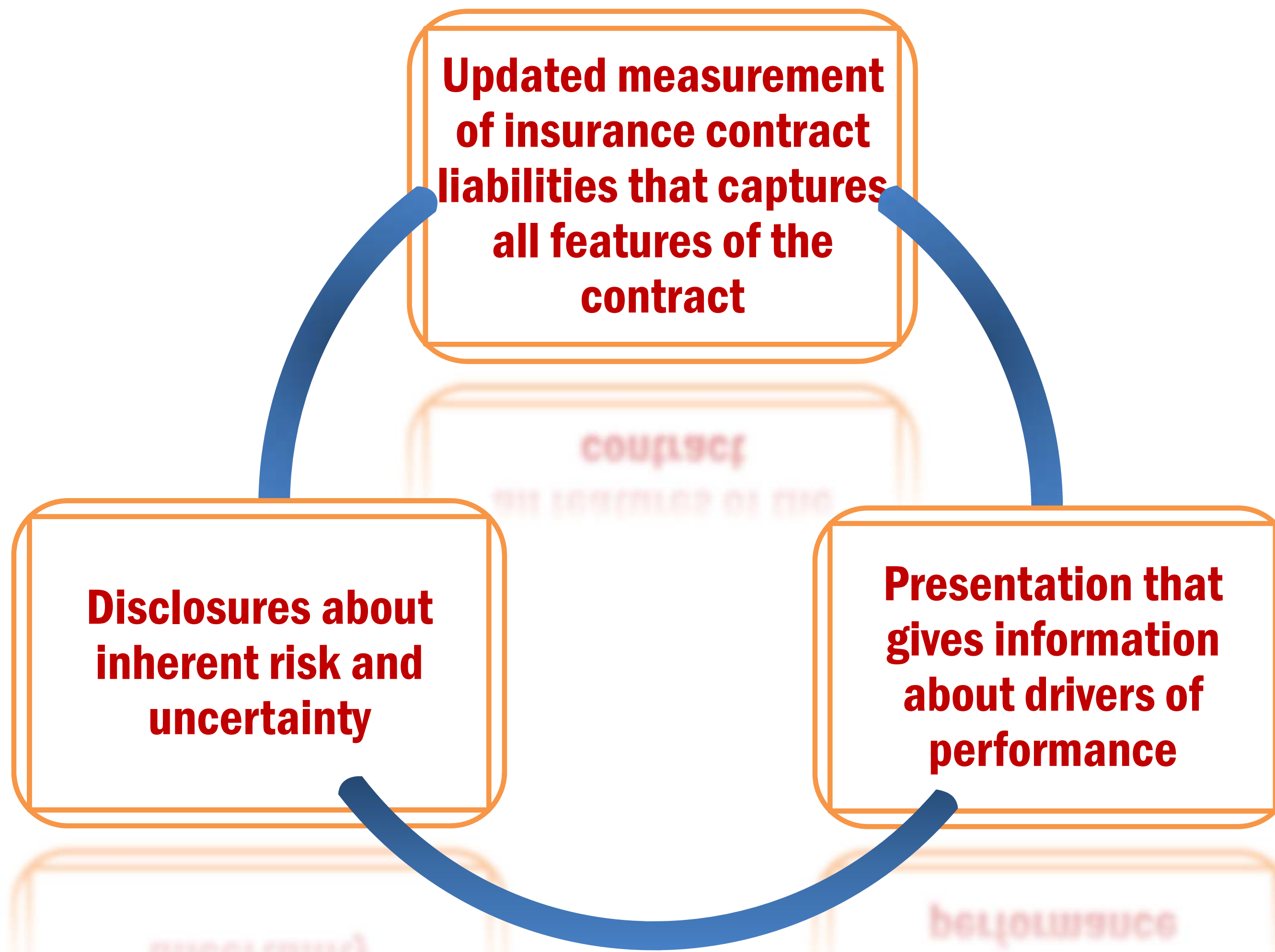
An insurer shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from insurance contracts.

a. Its **objectives, policies and processes for managing risks** arising from insurance contracts and the methods used to manage those risks.
b. information about **insurance risk (both before and after risk mitigation by reinsurance)**, including information about:
   I. **sensitivity** to insurance risk (see paragraph 39A).
   II. **concentrations** of insurance risk,
   III. actual claims compared with previous estimates (ie **claims development**).
c. Information about credit risk, liquidity risk and market risk
d. information about exposures to market risk arising from embedded derivatives

Introduction to IFRS 4 – Phase II

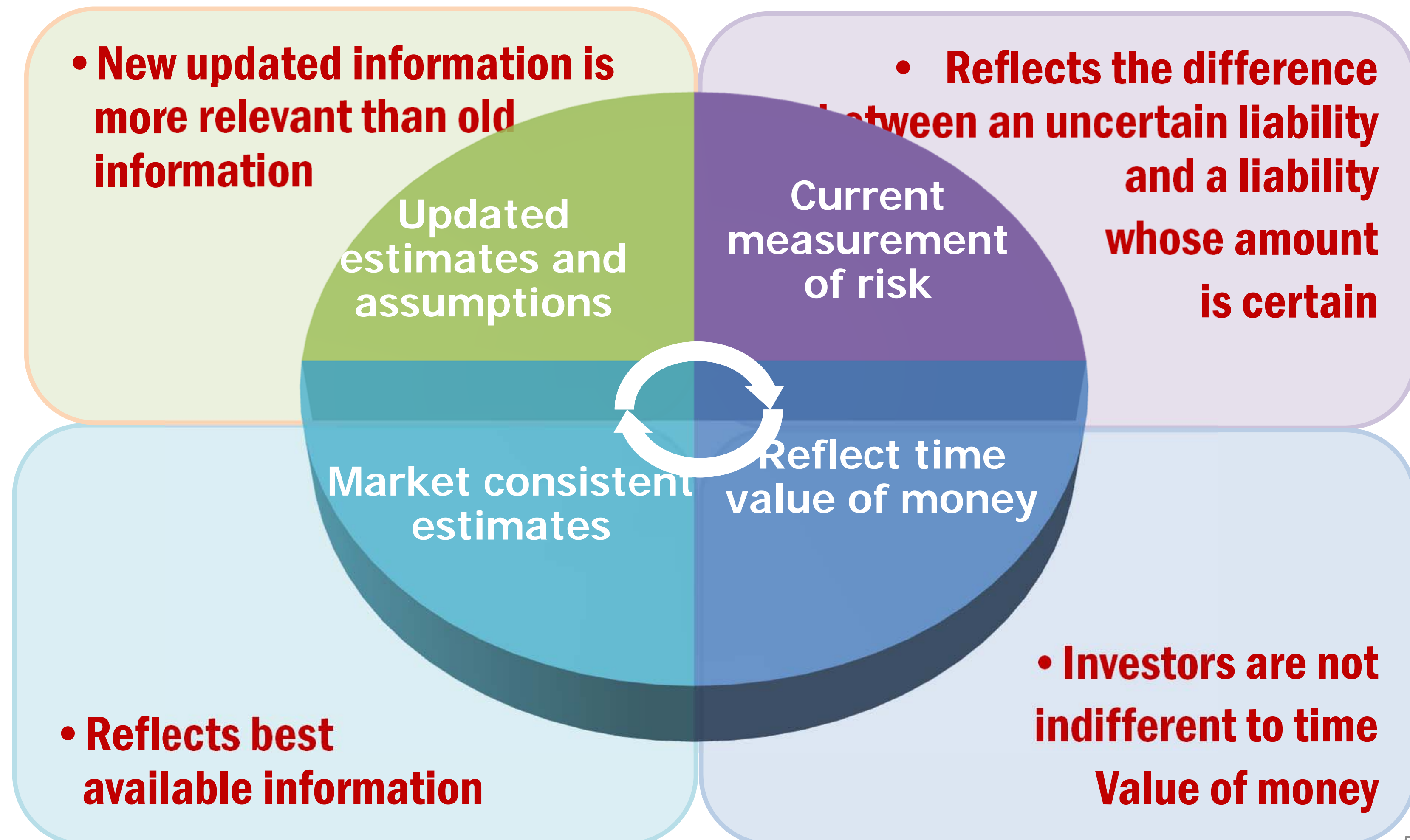
- To **improve comparability** in the accounting for insurance contracts through:
  - Coherent, **principles-based framework for all types of insurance contracts** (no need for 'add-on' rules)
  - Transparent reporting of changes in **insurance contract liability**
  - Transparent reporting of economic value of **embedded options and guarantees**

IFRS 4 – Phase II will come with



Source : IASB

IFRS 4 – Phase II Model



Source : IASB

Building block approach

Total insurance liability	
Residual margin	Contract profit (reported over the life of the contract)
Risk adjustment	An assessment of the difference between an uncertain liability and a liability whose amount is certain
Time value of money	An adjustment that reflects the time value of money
Cash flows	The amounts the insurer expects to collect from premiums and pay out for claims, benefits and expenses, estimated using up-to-date information

Source : IASB

IFRS 4 – Phase II – Possible Changes

- Assets and liabilities arising from insurance contracts should be measured at their fair value
- An undiscounted measure is inconsistent with fair value
- Acquisition costs should be recognised as an expense when incurred.

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Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

(Amendments to IFRS 4)

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Objective

- Reduce the impact of deferring the effective dates of the forthcoming Insurance Contracts Standard & IFRS 9.

IFRS	IFRS 9	IFRS 4 (Amended Standard)
Effective Date	01/01/2018	01/01/2020 or 2021
Issued in	Completed version issued in July 2014	Will be issued in the 1st Quarter in 2017

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Background:
Concerns of the Industry and users of Insurance

- Both IFRS 9 and the forthcoming insurance contracts Standard are expected to result in major accounting changes for most insurers.
- Possibility of additional accounting mismatches and volatility in profit or loss, when IFRS 9 is applied before the forthcoming insurance contracts Standard.
- Two sets of major accounting changes in a short period of time could result in significant cost and effort for preparers and users of financial statements.
- Having to apply the classification and measurement requirements of IFRS 9 before the adoption of forthcoming insurance standard can be fully evaluated would require insurers to ‘apply IFRS 9 twice’.
- IFRS 9 introduces significant improvements in accounting for financial instruments that should be implemented promptly. These improvements are particularly important for insurers because they hold significant investments in financial instruments.

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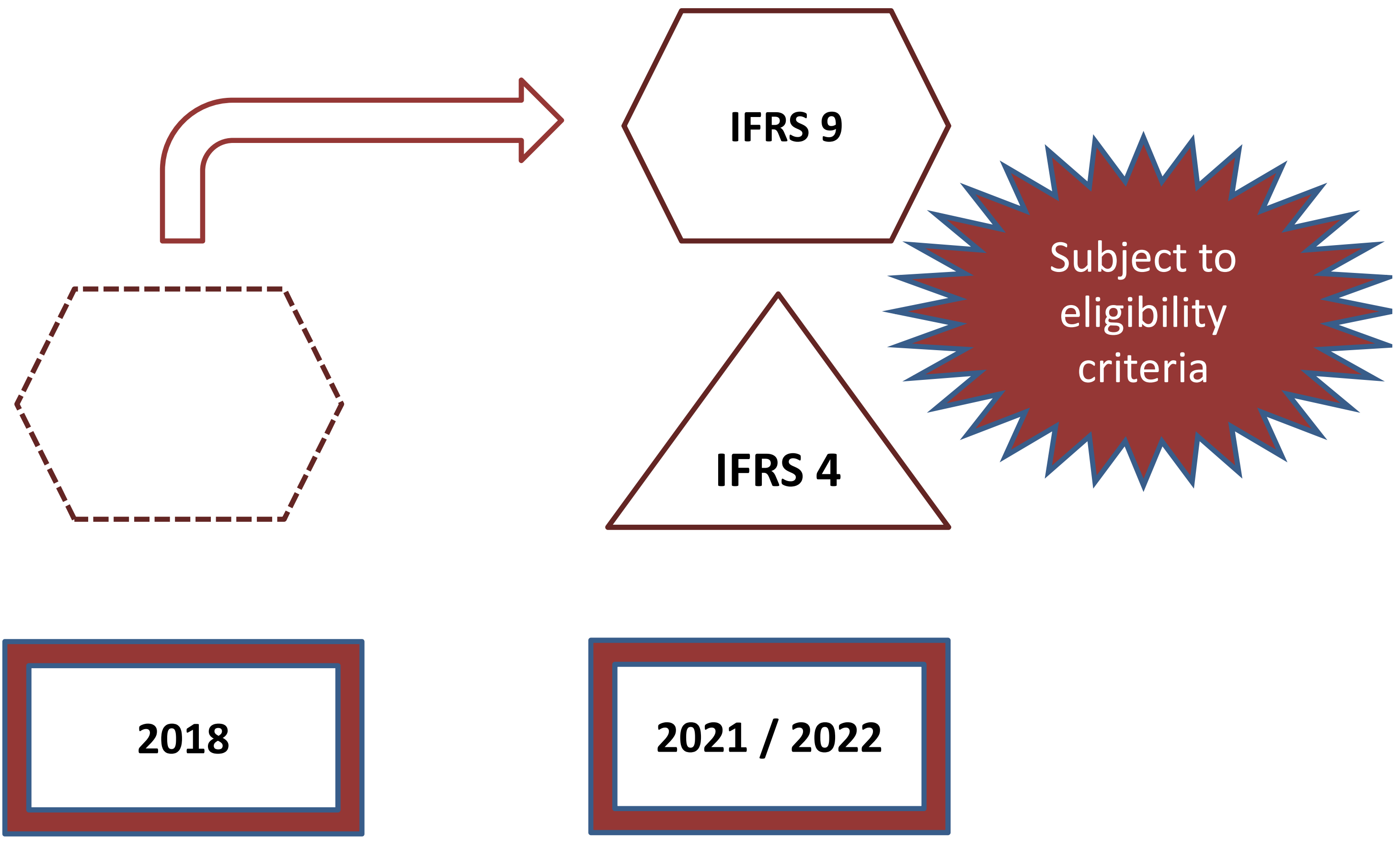
Two optional solutions through Amendments to IFRS 4

Temporary exemption from IFRS 9	Overlay approach
Permit to effectively defer its application for some insurers	to presentation to alleviate the volatility that may arise when applying IFRS 9 before the forthcoming insurance contracts standard.

Objective : to reduce the impact

Temporary exemption from IFRS 9



Rather than having to implement IFRS 9 in 2018, some entities will be permitted to continue applying IAS 39 *Financial Instruments: Recognition and Measurement*

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Eligibility criteria

An entity will be permitted to apply the temporary exemption if:
- it has **not applied IFRS 9** before; and
- its activities are **predominantly connected with insurance**.

An entity's activities are '**predominantly connected with insurance**' if:
- its **liabilities arising from contracts in the scope of IFRS 4** are **significant** compared with its total liabilities; and
- the **ratio of its liabilities** connected with insurance – including investment contracts measured at fair value through profit or loss (FVTPL) – compared with its total liabilities is:
  - **> 90%**; or
  - **> 80%** but **≤90%**, and the entity **does not engage in** a significant activity **unconnected with insurance**.

After the initial assessment, an entity may be required or permitted to complete an updated assessment (i.e. **reassessment**) as a result of a change in an entity's activities.

Temporary exemption from IFRS 9 *(contd..)*

Liabilities connected with insurance:

- those arising from contracts that are in the scope of IFRS 4;
- non-derivative investment contract liabilities measured at FVTPL under IAS 39, including those designated as at FVTPL; and
- other liabilities that arise because the insurer issues, or fulfils obligations arising from, the contracts above.

Eg : Other liabilities:

- derivatives used to mitigate risks arising from insurance contracts and the assets backing those contracts;
- tax, salaries and other employment benefit liabilities of the insurance activities; and
- debt issued to boost regulatory capital.

Key Impacts

- ❑ Use judgement for the predominance assessment
- ❑ Need to consider both qualitative and quantitative factors
- ❑ Within a group structure companies may prepare financial information under both IAS 39 and IFRS 9.

Effective date

An entity is permitted to apply the temporary exemption for annual reporting periods **beginning before 1 January 2021**

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Example

Company	FS Preparation	Activities predominantly connected with insurance	Application of Temporary Exemption
Parent C	Issue Consolidated FS	Yes	Permitted
Subsidiary A	Issue Standalone FS	Yes	Permitted
Subsidiary B	Issue Standalone FS	No	Not Permitted (Has to apply IFRS 9)
Subsidiary C	Do not issue Standalone FS	No	Provide information to C, consistent with C's Accounting policies

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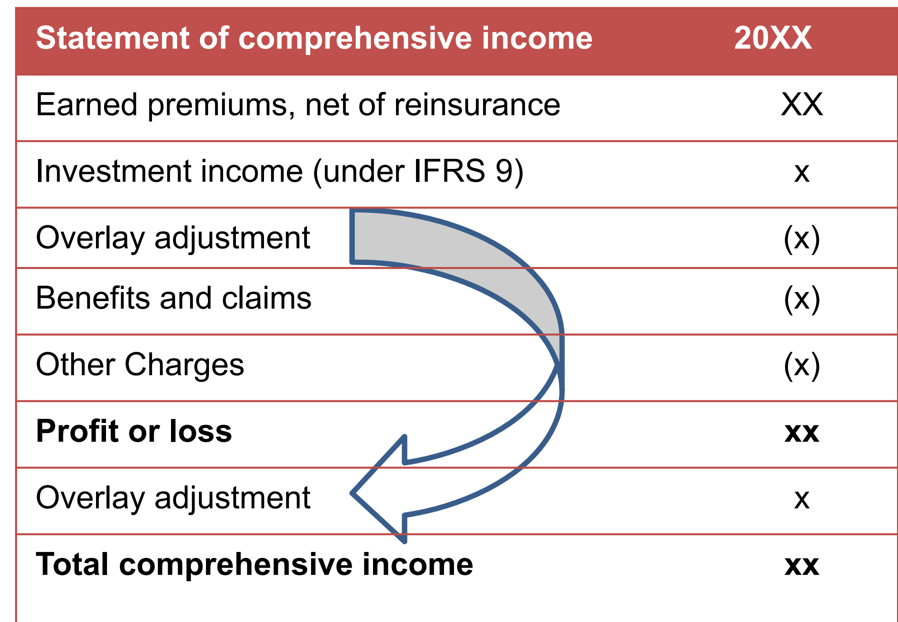
Overlay approach

A financial asset is eligible for designation if:
- it is not held for an activity that is unconnected with contracts in the scope of IFRS 4; and
- it is **measured at FVTPL** under IFRS 9 but would not have been under IAS 39.

For designated financial assets, an entity is permitted to **reclassify between profit or loss and OCI** the **difference** between the amount **reported in profit or loss under IFRS 9** and the **amount that would have been reported in profit or loss for those assets if the entity had applied IAS 39**.

An entity is required to present the effect of the overlay adjustment:
- *in profit or loss:* as a separate line item (pre-tax); and
- *in OCI:* as a separate component – this item is grouped with other items that will be reclassified subsequently to profit or loss

Effective Date:
Permitted to start applying the overlay approach only when it first applies IFRS 9, including after previously applying the temporary exemption.



Statement of comprehensive income	20XX
Earned premiums, net of reinsurance	XX
Investment income (under IFRS 9)	x
Overlay adjustment	(x)
Benefits and claims	(x)
Other Charges	(x)
Profit or loss	**xx**
Overlay adjustment	x
Total comprehensive income	**xx**

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Other Options

Shadow accounting:

- ✓ Enables an entity to adjust aggregate insurance liabilities to reduce accounting mismatches that can arise if:
  - ❑ unrealised gains and losses on assets held by the entity are recognised in the financial statements (in profit or loss or in OCI); and
  - ❑ realisation of those gains and losses would have a direct effect on the measurement of insurance liabilities.
- ✓ Shadow accounting may be applicable if an entity applies the overlay approach.

Use of a current market interest rate: Entities are permitted under IFRS 4 to introduce a current market interest rate to measure insurance liabilities.

Other voluntary change in accounting policy: IFRS 4 permits an entity to update its accounting policies to reduce accounting mismatches

Disclosure: Consistent with current accounting requirements, temporary increases in accounting mismatches and other sources of volatility in profit or loss could be explained using enhanced disclosures in the financial statements or other published reporting.

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Example

- Insurance Company "I" issues contracts for which policyholders participate in 80% of realised profits.
- Additional information on the associated financial assets with these contracts are as follows:
  - ✓ Do not meet the solely payments of principal and interest (SPPI) test under IFRS 9 : therefore are measured at FVTPL under IFRS 9.
  - ✓ Under IAS 39, these assets were classified as available-for-sale i.e. Changes in FV recognized in OCI.
- Details on the FV:
  - ✓ FV at the beginning of the RP – Rs. 100
  - ✓ FV at the end of the RP – Rs. 150
- Accounting treatment for the Increase in FV:
  - ✓ Under IAS 39 - in OCI
  - ✓ Under IFRS 9 - in P&L

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Example *(contd…)*

Accounting Treatment:

- First records the **increase in value of the financial assets**, with a corresponding **increase in profit or loss**, and then applies an overlay adjustment to **reclassify the unrealised gain of 50 from profit or loss to OCI**.
- Then I applies a shadow adjustment to **recognise a loss in OCI** and a **remeasurement of the policyholder liability of 40** to **reflect the policyholder share in the unrealised gain (80% x 50)**.
- The net effects on profit or loss and OCI after the overlay and shadow adjustments are the same as under IAS 39.

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Disclosures

Objective	Temporary exemption	Overlay approach
to enable users to understand	▪ How an entity qualified for the exemption	▪ How the adjustment is calculated
	▪ How to compare insurers applying IFRS 9 with those that are not	▪ The effect on the financial statements

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Disclosures (*contd….*)

Disclosures on qualifying for the temporary exemption

Will depend on the mix of the entity’s liabilities

- If the carrying amount of its liabilities arising from contracts in the scope of IFRS 4 was ≤ 90% of the total carrying amount of all of its liabilities, then it discloses the nature and carrying amounts of the liabilities connected with insurance that are not liabilities arising from contracts in the scope of IFRS 4.
- If the entity qualified for the temporary exemption with a predominance ratio i.e. the percentage of its liabilities connected with insurance relative to all of its liabilities – ≤ 90%, then it discloses how it determined that it has no significant activity that is unconnected with insurance, including the information considered.
- If the entity qualified for the temporary exemption on the basis of a reassessment, then it discloses:
  - the reason for the reassessment;
  - the date on which the relevant change in activities occurred; and
  - an explanation of the change in activities and its effect on the financial statements.
- Similar disclosures would be provided when an entity concludes that it no longer qualifies for the temporary exemption.

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Disclosures (*contd….*)

Disclosures to provide comparability

- An entity discloses the fair value and change in the fair value at the reporting date, separately for each of the following groups:
  - financial assets that meet the SPPI test in IFRS 9, excluding any financial assets that meet the definition of held for trading in IFRS 9 or that are managed and evaluated on a fair value basis; and
  - all other financial assets: i.e. financial assets that do not meet the SPPI test, that do meet the definition of held for trading, or that are managed and evaluated on a fair value basis.
- For financial assets that meet the SPPI test, excluding any financial assets that meet the definition of held for trading in IFRS 9 or that are managed and evaluated on a fair value basis, an entity discloses:
  - by credit risk rating grades, the carrying amounts under IAS 39; and
  - the fair value and carrying amounts under IAS 39 for financial assets that do not have low credit risk at the reporting date.
- An entity also discloses references to any IFRS 9 information that is not provided in the consolidated financial statements, but is publicly available for the relevant period in the individual financial statements of entities within the group.
- Additional disclosures are required if an entity applies the exceptions permitted for investments in associates and JVs

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Disclosures (*contd….*)

Overlay approach

- Disclosures are required to enable users of financial statements to understand how the total amount reclassified between profit or loss and OCI was calculated and how it affects the financial statements.
- An entity discloses its basis for determining the financial assets for which an overlay adjustment is made and an explanation of how the overlay adjustment was derived in the period, and its effects on each affected line item in profit or loss.
- Additional disclosures are required in a reporting period if an entity changes the designation of financial assets or if it applies the overlay approach when accounting for an investment in an associate or JV using the equity method.

Thank you.