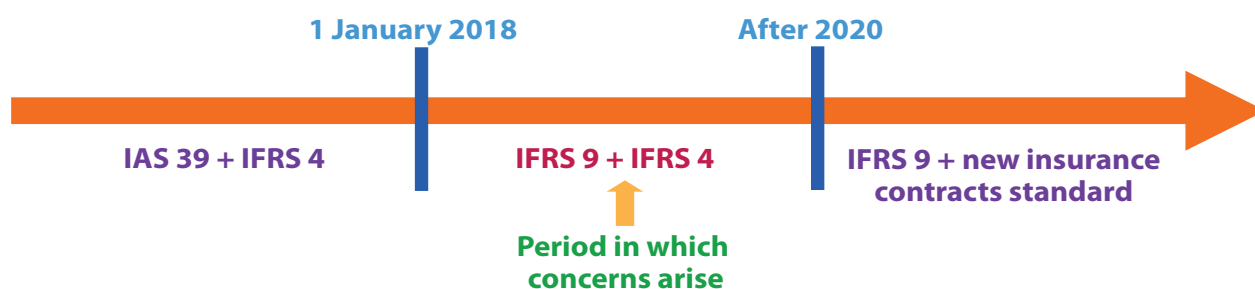


Amendments to HKFRS 4 – Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts

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Background

The International Accounting Standards Board (“IASB”) has issued International Financial Reporting Standard (“IFRS”) 9 *Financial Instruments* which sets out the recognition and measurement requirements for financial assets and financial liabilities. IFRS 9 will be effective for annual period beginning on or after 1 January 2018. Meanwhile, IASB has started a project to replace IFRS 4 *Insurance Contracts* with a new financial reporting standard that sets out comprehensive requirements for insurance contracts. The project for the new financial reporting standard that replaced IFRS 4 is still in progress and is likely to be effective after 2020. Thus, there are concerns about the financial statements of issuers of insurance contracts may be difficult to understand if IFRS 9 is applied before the new financial reporting standard that replaced IFRS 4, particularly there would be temporary accounting mismatches and apparent volatility expected to be aroused in profit or loss in the period between the effective dates of IFRS 9 and the new financial reporting standard that replace IFRS 4.



In order to address these concerns, IASB has issued the amendments to IFRS 4 by providing two options, namely the *overlay approach* and the *temporary exemption from IFRS 9* in September 2016.

Subsequently in January 2017, the Hong Kong Institute of Certified Public Accountants also issued the same amendments, Amendments to Hong Kong Financial Reporting Standard (“HKFRS”) 4 – *Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*, so as to maintain the convergence with IFRSs.

What are the major content of the amendments?

The following summarised the major amendments in Amendments to HKFRS 4:

	Overlay approach	Temporary exemption from HKFRS 9
Scope	<ul style="list-style-type: none"> All companies issuing insurance contracts 	<ul style="list-style-type: none"> Companies have not previously applied HKFRS 9 (other than only the requirement for the presentation of gains or losses on financial liabilities designated at FVTPL); and Companies whose activities are predominantly connected with insurance¹ at their annual reporting date that immediately precedes 1 April 2016, or at a subsequent annual reporting date when qualified
Details	<ul style="list-style-type: none"> For designated financial assets², a company is permitted, but not required, to reclassify between profit or loss (“P/L”) and other comprehensive income (“OCI”), the difference between the amounts recognised in the P/L at the end of the reporting period under HKFRS 9 and those that would have been reported under Hong Kong Accounting Standard (“HKAS”) 39 <i>Financial Instruments: Recognition and Measurement</i> 	<ul style="list-style-type: none"> Permits, but does not require, the insurer to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2021 (or until the new insurance contracts standard is applied if that is earlier)

¹An insurer’s activities are predominantly connected with insurance if, and only if:

- the carrying amount of its liabilities arising from contracts with the scope of HKFRS 4 is significant compared to the total carrying amount of all its liabilities; and
- the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities is:
 - greater than 90 per cent; or
 - 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.

²A financial asset is eligible for designation for the overlay approach if, only if, the following criteria are met:

- it is measured at fair value through profit or loss (“FVTPL”) applying HKFRS 9 but would not have been measured at FVTPL in its entirety applying HKAS 39; and
- it is not held in respect of an activity that is unconnected with contracts within the scope of HKFRS 4.

	<ul style="list-style-type: none"> ● Present the amount reclassified between P/L and OCI in P/L as a separate line item; and in OCI as a separate component of OCI ● Permit to designate financial assets on an instrument-by-instrument basis ● When the designated financial assets no longer met the criterion as designated financial assets or entity stops using the overlay approach, the entity shall reclassify from accumulated OCI to P/L as a reclassification adjustment any balance relating to that financial assets ● Available until the new standard that replace HKFRS 4 	<ul style="list-style-type: none"> ● When applying the equity method, permit, but does not require, the insurer not to apply uniform accounting policies when the investees (i.e. its associates or joint ventures) apply HKAS 39 and the investor (i.e. the insurer) apply HKFRS 9, or vice versa ● The insurer must assess their eligibility for temporary exemption from HKFRS 9 at the reporting entity level
Time for reassessment	<ul style="list-style-type: none"> ● When the designated financial assets are derecognised or no longer met the criterion of designated financial assets; or ● Stop applying the overlay approach to all designated financial assets at the beginning of any annual period 	<ul style="list-style-type: none"> ● When there is a change in the entity's activities, which is expected to be very infrequent
Additional disclosures	<ul style="list-style-type: none"> ● Information about how the total amount reclassified between P/L and OCI in the reporting period is calculated ● Information about the effect of that reclassification on the financial statements 	<ul style="list-style-type: none"> ● Information about how the insurer is qualified for the temporary exemption ● Information about comparing insurers applying temporary exemption with entities applying HKFRS 9

**Effective date
and transition**

- When HKFRS 9 is being first applied
- Apply retrospectively only when entities restate comparative information when applying HKFRS 9
- For annual periods beginning on or after 1 January 2018

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